中國中盛資源控股有限公司
China Zhongsheng Resources Holdings Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code: 2623

2013
ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Li Yunde *(Chairman)*
Geng Guohua *(Chief Executive Officer and Chief Operating Officer)*
Lang Weiguo

Independent Non-executive Directors

Li Xiaoyang
Lin Chu Chang
Zhang Jingsheng

COMPANY SECRETARY

Chan Yuen Ying, Stella *FCIS, FCS, MHKIoD*

AUTHORISED REPRESENTATIVES

Geng Guohua
Chan Yuen Ying, Stella *FCIS, FCS, MHKIoD*

AUDIT COMMITTEE

Lin Chu Chang *(Chairman)*
Li Xiaoyang
Zhang Jingsheng

REMUNERATION COMMITTEE

Lin Chu Chang *(Chairman)*
Li Yunde
Zhang Jingsheng

NOMINATION COMMITTEE

Li Yunde *(Chairman)*
Li Xiaoyang
Zhang Jingsheng

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

As to Hong Kong law:
Loong & Yeung

As to PRC law:
Dacheng Law Offices

As to Cayman Islands law:
Appleby

As to Australian law:
Steinepreis Paganin

As to Thailand law:
Bamrung Suvicha Apisakdi Law Associates

COMPLIANCE ADVISER

Haitong International Capital Limited

REGISTERED OFFICE

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HEADQUARTER IN THE PRC

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Yishui County
Shandong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
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Grand Cayman
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China, Yishui Branch
China Construction Bank Corporation,Yishui Branch
Bank of China Limited, Yishui Branch
Industry And Commercial Bank of China Ltd, Yishui Branch
Shandong Rural Credit Cooperative Union, Yishui Sales Department
Linyi Commercial Bank, Yishui Branch
Shanghai Pudong Development Bank, Linyi Branch
Shenzhen Development Bank Co., Ltd., Jinan Branch

STOCK CODE

2623

COMPANY WEBSITE

http://www.chinazhongsheng.com.hk

Chairman's Statement

Dear Shareholders:

I am pleased to present to our shareholders the annual results for the year ended 31 December 2013 on behalf of China Zhongsheng Resources Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group").

BUSINESS REVIEW

In response to the global recession in 2013 and faced with the tough situations of the overcapacity of steel industry in the PRC and high vitality in iron ore price index during the year, the management of the Company carried out their work with the concept of the macro adjustments and micro savings and took a series of measures and achieved satisfactory operating results as follows:

The total comprehensive income of the Group attributable to owners of the Company increased by approximately RMB61.7 million or approximately 128.5% from approximately RMB48.0 million for the year ended 31 December 2012 to approximately RMB109.7 million for the year ended 31 December 2013.

The Company mainly took the following measures:

I. **Setting resource strategy as the primary strategy and foundation for the development of the Company.** During 2013, the Company completed the strategic transformation from a purely iron ore-company to a titanium-iron company based on iron concentrates with emphasis on titanium concentrates. In the first quarter of 2013, the Company had completed the acquisition of Linyi Luxing Titanium Co., Ltd, which increased the ilmenite reserves and generated the one-off gain on bargain purchase (a negative goodwill) of approximately RMB60.3 million.

II. **Priority on social responsibility and striving for getting grants and support from the government aggressively.** During 2013, leveraging on the edges of the Company in greening, environment protection, safety, recycling economy and integrated utilisation of resources, the Company was rewarded approximately RMB19.4 million by the government at all levels, representing an increase of approximately RMB11.4 million as compared with 2012.

III. **Increasing the gross margin of iron concentrates produced by the Group through further lowering the costs and carrying out technology improvement.** By improving the existing production process and the equipment of Yangzhuang Iron Mine, gross profit of iron concentrates produced from Yangzhuang Iron Mine increased by approximately RMB7.5 million from approximately RMB107.4 million for the year ended 31 December 2012 to approximately RMB114.9 million for the year ended 31 December 2013.

IV. **Reducing fund needs and saving financial cost by closely following the market and actively avoiding trade risks.** Turnover from trading of coarse iron powder decreased by approximately RMB174.9 million from approximately RMB310.9 million for year ended 31 December 2012 to approximately RMB136.0 million for the year ended 31 December 2013. Due to the decrease in funds needed for trading activities, bank loans amounted to approximately RMB210.0 million as at 31 December 2013, which represented a decrease by approximately RMB139.9 million as compared with approximately RMB349.9 million as at 31 December 2012. Interest expense dropped by approximately RMB4.9 million accordingly.

V. **Expanding customer channels and improving the collection of payment from customers.** During 2013, the Company actively identified new partners to develop new quality customers and reduced risks of the collection of payment from customers. The Company also took a series of measures, including optimising the aging structure of trade receivables and reducing trade receivables, to resolve the problem of late payment for goods from steel manufacturers, enabling cash flows from operating activities of the Company to increase by approximately RMB424.6 million as compared with the same period last year.

Chairman's Statement

PROSPECTS FOR 2014

During 2013, the Group completed the strategic transformation of new mineral product portfolios which added titanium concentrate products in addition to iron concentrates, laying a solid foundation for the sustainable business development of the Group. The Group will implement the following development plans in respect of the mines currently owned by the Group:

I. Yangzhuang Iron Mine:

Under normal circumstances, the Group plans to mine and process approximately 2.0Mt iron ores and to produce approximately 0.33Mt of 65% iron concentrates in 2014.

II. Luxing Titanium Mine:

The Company plans to mine and process approximately 1.0Mt ilmenite ores and to produce approximately 60,000 tonnes of 57% iron concentrates and approximately 30,000 tonnes of 20-30% titanium concentrates in 2014.

III. Qinjiazhuang Ilmenite Project:

In 2014, the Company will determine the investment and production activities in Qinjiazhuang Ilmenite Project according to the effectiveness and the cost of the titanium processing test in the Luxing Titanium Mine in line with market changes.

IV. Zhuge Shangyu Ilmenite Mine:

The Company plans to mine and process approximately 0.7Mt ilmenite ores and to produce approximately 16,000 tonnes of 57% iron concentrates and approximately 18,000 tonnes of 46% titanium concentrates in 2014.

If the market recovers, the Company will increase its investment in the 2.0Mt processing and production line in Zhuge Shangyu Ilmenite Mine. If such investment is less profitable or not profitable at all, the Company will reduce its investments. The Company will first install a processing and production line by utilising idle equipment in the site and other mining areas, and will determine if it will process those part of coarse powders purchased from other suppliers based on profitability. Then the Company will decide to mine and process its own mines if the market recovers.

In conclusion, facing with falling prices and a downturn market since 2014, the Company will adjust the production plans timely in line with the market situation, protect its resources and strive for long and sustainable benefits for the Group and its investors, and accomplish the production and operation objects of the Company, so as to give our shareholders a satisfactory result.

I, on behalf of the management of the Group, express sincere gratitude to all the staff for their efforts in the Company in the past year, and the support from our suppliers, customers and investors.

Li Yunde
Chairman

Hong Kong, 28 March 2014

Management Discussion and Analysis

BUSINESS REVIEW

The principal activities of the Group are iron and ilmenite ore exploration, iron ore and ilmenite ore mining, iron ore processing to produce iron concentrates and titanium concentrates and trading of iron concentrates and titanium concentrates in Shandong Province, the People's Republic of China (the "PRC" or "China"). Since 2013, the Group has started to engage in ilmenite ore mining and ilmenite ore processing to produce iron concentrates and titanium concentrates in Shandong Province, the PRC. The Group's major customers are mainly iron pellets makers and steel manufacturers located in close proximity.

Shandong Ishine Mining Industry Co., Ltd ("Shandong Ishine"), an indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Yang Wenxing on 19 December 2012 to acquire 95% of the equity interests of Luxing Titanium at a consideration of RMB20.9 million (the "Acquisition"). The Acquisition was completed in the first quarter of 2013. Luxing Titanium is a mining company based in Shandong Province, the PRC and is principally engaged in ilmenite ore mining and processing to produce iron concentrates and titanium concentrates. For details of the Acquisition, please refer to the announcement of the Company dated 19 December 2012.

The Group possesses mining rights in respect of Yangzhuang Iron Mine (楊莊鐵礦), an iron ore mine located in Qinjiazhuang Village, Yangzhuang Town, Shandong Province, the PRC ("Yangzhuang Iron Mine"), Zhuge Shangyu Ilmenite Mine (諸葛上峪鐵鈦礦), an ilmenite and magnetite mine located in Yishui County, Shandong Province, the PRC ("Zhuge Shangyu Ilmenite Mine"), Bashan Iron Project, an iron ore project located in Yishui County, and Luxing Titanium, an ilmenite ore mine located in Yishui County, Shandong Province, the PRC ("Luxing Titanium"), and owns the exploration rights over Yangzhuang Iron Mine, Qinjiazhuang Ilmenite Project, an ilmenite ore project located in Qinjiazhuang District, Yishui County, Shandong Province, the PRC ("Qinjiazhuang Ilmenite Project"), Zhuge Shangyu Ilmenite Mine and Gaozhuang Shangyu Ilmenite Project, an ilmenite ore project located in Shangyu District, Yishui County, Shandong Province, the PRC ("Gaozhuang Shangyu Ilmenite Project").

The shares of the Company ("Shares") were first listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 April 2012, under which a total of 129,760,000 Shares were issued at the offer price of HK$1.23 per Share.

The Group's revenue decreased by approximately RMB203.6 million, or 23.4%, to approximately RMB667.9 million for the year ended 31 December 2013, as compared with approximately RMB871.5 million for the year ended 31 December 2012. The decrease in revenue was primarily due to (1) the decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB17.3 million, which was partially offset by the consolidation of sales of iron concentrates produced from ilmenite ore of Zhuge Shangyu and ilmenite ore of Luxing Titanium Mine by approximately RMB3.8 million and approximately RMB68.5 million for the year ended 31 December 2013; (2) the decrease in sales of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB78.9 million, and (3) the decrease in turnover by approximately RMB174.9 million from trading of coarse iron powder from approximately RMB310.9 million for the year ended 31 December 2012 to approximately RMB136.0 million for the year ended 31 December 2013.

Management Discussion and Analysis

The total comprehensive income attributable to owners of the Company has increased by approximately RMB61.7 million, representing an increase of approximately 128.5% as compared to that for the year ended 31 December 2012. This was mainly due to (1) the one-off gain on bargain purchase (a negative goodwill) of approximately RMB60.3 million as a result of the Acquisition, which was completed in the first quarter of 2013. The one-off gain on bargain purchase (negative goodwill) was mainly derived from the difference between the fair value of 95% of Luxing Titanium's identifiable net assets and consideration paid by the Group for the Acquisition; and (2) the increase in the amount granted by the PRC government by approximately RMB11.4 million upon the recognition of the achievement in the areas of social responsibilities and integrated utilisation of resources and (3) the decrease in gross profit by approximately RMB 9.1 million, or 6.0% for the year ended 31 December 2013 as compared with the year ended 31 December 2012 mainly due to (i) the decrease in sales gross profit of trading of coarse iron powder by approximately RMB12.8 million from approximately RMB19.5 million for the year ended 31 December 2012 to approximately RMB6.7 million for the year ended 31 December 2013; (ii) the decrease in sales gross profit of iron concentrates produced from mixing iron concentrates purchased from the other suppliers and/or produced from the coarse iron powder by approximately RMB10.1 million from approximately RMB27.4 million for the year ended 31 December 2012 to approximately RMB17.3 million for the year ended 31 December 2013. The decrease in gross profit for the year ended 31 December 2013 was partially offset by (i) the increase in sales gross profit of iron concentrates produced from the iron ore of Yangzhuang Iron Mine by approximately RMB7.5 million from approximately RMB107.4 million for the year ended 31 December 2012 to approximately RMB114.9 million for the year ended 31 December 2013; (ii) the increase in sales gross profit of iron concentrates and titanium concentrates produced from the ilmenite ore of Luxing Titanium Mine by approximately RMB4.8 million and approximately RMB0.3 million respectively from nil for the year ended 31 December 2012 and (iii) the decrease in tenement commitment expenditure by approximately RMB1.3 million in Ishine International.

Since April 2012, the entire iron and steel market has demonstrated an ongoing downward moving trend as the economy in China continued to remain sluggish. The price of iron concentrates with 65% iron content also fell from one bottom to another. With the gradual recovery of the market in 2013, the average selling price of iron concentrates with 65% iron content per tonne was approximately RMB953.4 per tonne, which was approximately 0.6% slightly higher as compared with approximately RMB947.5 per tonne during the year of 2012.

Measures adopted by the management in 2013

In response to the global recession in 2013, the management of the Company carried out their work with the concept of the macro adjustments and micro savings and took the following measures with the following effects:

I. To enhance the business of titanium concentrates and complete the strategic transformation from an iron ore – company to a titanium-iron company

1. In the first quarter of 2013, the Company had completed the Acquisition so that the ilmenite reserves of the Company were increased. Through the effective rationalisation of the management of the personnel, capital and properties of Luxing Titanium, and pertinent research and improvement on the technique and the equipment of the iron-titanium separation technology, the Company completed the strategic transformation from a purely iron ore-company to a titanium-iron company based on iron concentrates with emphasis on titanium concentrates.

2. The Company had put greater efforts into the construction of Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Mine. The Company provided personnel and technical support to the construction of Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Mine through digestion, reasonable allocation and training the technical team for titanium-iron production lines, which paved the way for entering into the business of titanium.

Management Discussion and Analysis

II. Market-oriented: to timely grasp market prices to avoid a decrease in efficiency as a result of lower market prices and purposeless expansion of production and to maximise the conservation of resources

Market information was collected through internet and customers. Briefings on market were delivered on a daily basis and market trends were closely monitored for market analysis. Sales was made strategically when prices went up; production was reduced when selling prices went down; appropriate volume of inventory was retained in order to protect resources.

III. To further improve mineral processing techniques, expand the production capacity and reduce production costs

Facing the fierce market competition, the management determined to further improve the processing techniques, to reduce costs and to improve the existing production process and the equipment of Yangzhuang Iron Mine.

For Yangzhuang Iron Mine:

1. Crushing system:

   The facilities were upsized. A new system was designed to replace the two existing crushing systems. The addition of ultra fine crushing and multiple dry separation system separated gangue out on a timely basis so as to reduce the gangue amount in the process of grinding.

2. Grinding system:

   The Group had put more efforts in the pre-processing process before grinding in order to further remove barren rocks to the full extent, and hence improving the grade of the iron ores in the process of grinding and reducing the grinding volume.

   As barren rocks were removed in the pre-processing process, the grade of the iron concentrates in the processing of grinding improved. Therefore, the iron concentrate amount was increased and the production costs was reduced under the same production conditions.

For Luxing Titanium:

The major equipment of Luxing Titanium production lines was upgraded and the technology of the production process was improved, and hence increased the production and the production capacity. The annual ore processing capacity has increased from previously 1.2 Mt to 1.5 Mt.

Management Discussion and Analysis

IV. To expand customer channels, improve the collection of payments from customers and optimise the aging structure of trade receivables

To resolve the problem of late payment for goods from steel manufacturers in previous years, the Company, through establishing the customer credit management files, paid close attention to the collection progress of trade receivables and the related changes of the status, prepared the aging analysis of trade receivables and effectively carried out the tracking and the management of trade receivables. The Company paid special attention to overdue trade receivables. The relevant customers would be analysed in details and the Company would urge for payments in a timely manner as preventive measures. The Company also expanded its customer channels to develop new quality customers. As at the end of December 2013, trade receivables decreased by approximately RMB81.3 million or approximately 29.9% from approximately RMB271.7 million as at 31 December 2012 to approximately RMB190.4 million as at 31 December 2013. Among them, (1) trade receivables due in 6 months to 1 year were reduced by approximately 96.1% from approximately RMB40.8 million as at 31 December 2012 to approximately RMB1.6 million as at 31 December 2013; and (2) trade receivables due in 3 months to 6 months were reduced by approximately 64.7% from approximately RMB68.6 million as at 31 December 2012 to approximately RMB24.2 million as at 31 December 2013.

V. To give a full play to the supervisory function of audit and strengthen the auditing of construction projects

Targeting at major construction projects, the Company actively implemented the auditing of construction projects so that the construction funds could be reasonably used. The Company exercised strict control on the auditing process. The Company ensured all qualified construction projects are fully audited, thereby effectively preventing construction projects from overestimation, ensuring the quality of construction projects and reasonable use of the construction funds.

VI. To strengthen supervision over purchasing and to utilise purchase funds properly

The Company strictly controlled its contract management by examining purchase contracts of raw materials and accessories, purchase contracts of external mines and purchase contracts of fixed assets etc. before approval and execution and reviewing contracts to ensure strict compliance with "Measures for Administration of Corporate Contracts", so that the Company could control contractual risks and performed risk management function effectively. For any bulk purchase of materials and major equipments and any purchase by bidding, the purchase department will compare the price and quality of the products before purchase so that the purchase funds can be utilised properly and effectively.

VII. To repay loans and to reduce the finance cost

The finance cost was reduced by approximately RMB3.8 million from approximately RMB33.7 million for 2012 to approximately RMB29.9 million for 2013, which was mainly due to the decrease in bank loans by approximately RMB139.9 million from approximately RMB210.0 million as at 31 December 2013 as compared with approximately RMB349.9 million as at 31 December 2012, which led to a decrease in interest expense by approximately RMB4.9 million accordingly.

Management Discussion and Analysis

VIII. Priority on social responsibility and to strive for getting grants and support from the government aggressively

During 2013, leveraging on the edges of the Company in greening, environment protection, safety, recycling economy and integrated utilisation of resources and while making contribution to social responsibility, the Company actively reported to the relevant financial grants and support of the state in the area of social responsibility. During 2013, the Company was rewarded a total of approximately RMB19.4 million by different levels of the government. Such proceeds laid a foundation for the Company in enhancing social responsibilities and the integrated utilisation of resources.

IX. To aggressively and continuously build green mines

The Company adopted the theme of "ecological restoration, environmental friendly, resource conservation and harmonious development" and the functional orientation of "green mines, humanistic mines, promoting technology and leisure tours", with the primary aim of using resources reasonably, saving energy and reducing emission, protecting the ecological environment and facilitating harmony at mines in compliance with the basic requirements of scientific exploitation, efficient usage of resources, standardised corporate governance, environment-friendly production and ecological mine environment. The Company applied the idea of green mines during the course of exploitation and utilisation of ore resources, promoted the recycling economic development model instead of development pattern which is merely concerned with consumption of resources at the expense of the ecology, and achieved harmonisation and integration of economic, ecological and social benefits in resource exploitation.

X. Emphasis on safety management

The emphasis of safety management is on the working site. The Company strictly implemented its safety check system and the supervisor shift system. The Company managed on-site safety by conducting daily, monthly and quarterly inspection, special inspection and in summer the "four-prevention" inspection to identify issues in its digging, electricity, ventilation and dustproof, drainage and fire, use of explosives and production, and rectified such issues according to its personnel, measures, time, capital and plans. It also strengthened its safety management through studying regulations, preventing non-compliance, identifying potential problems and reforming, so as to further enhance the safety awareness of its staffs and ensure the safety of production. As a result, there has been no fatal or serious injury accidents during the year.

XI. Arranging corporate culture promoting activities which suit the characteristics of the Company

Establishing an excellent corporate culture has always been a long-term and arduous task of the Company. Such culture is integrated into the daily management.

There were morning assembly and evening assembly, at which the Company shared actual cases with its staff to educate them on the Company's corporate culture. The Company also held various cultural promoting activities that were both enjoyable and educational, and captured every opportunity to promote corporate culture, which was instilled into and sprout in the mind of each staff, who changed this awareness into conscious action. As a result, those activities enhanced the quality of the staff and in turn the core competitiveness of the Company.

Through the gradual transformation of lawful, scientific and green mining into economic, social and environmental advantages, the idea of a green mine, a harmonious community, a recycling economy was realised, and thus a diversified and sustainable development was maintained.

Management Discussion and Analysis

OPERATION OVERVIEW AND CAPITAL EXPENDITURE

Yangzhuang Iron Mine

In order to lower the costs of processing iron ores, the Group carried out technology improvement plan for Yangzhuang Iron Mine, which involved the replacement of certain spare parts and machines by those with higher efficiency in the processing line.

The Group carried out technology improvement for the existing crushing systems by designing a new system to replace the two existing crushing systems, which reduced the grinding particle size from the existing approximately 22 mm to approximately 14 mm. The introduction of the process of dry separation before grinding can reduce the gangue amount in ball mills. The number of ball mills is reduced from 7 to 5. The Group added 1 jaw crusher, 4 cone crushers, 2 permanent magnetism magnetic separators, 4 vibrating screens and 1 vibrating feeder; and also carried out the infrastructure construction of foundation equipment and plants.

Approximately RMB23.0 million was expected to be invested for Yangzhuang Iron Mine for 2013. The actual expenditure in this relation in 2013 was approximately RMB23.1 million, including approximately RMB16.5 million on purchases of new equipment and approximately RMB6.6 million on infrastructure construction of foundation equipment and plants.

As at 31 December 2013, the technology improvement plan for Yangzhuang Iron Mine was nearly completed.

There was no exploration activity carried out in Yangzhuang Iron Mine in 2013.

The iron ore production in 2013 was approximately 2.03 Mt.

Zhuge Shangyu Ilmenite Mine

In order to commence the operation of Zhuge Shangyu Ilmenite Mine at the reasonable timeframe, the Group has rented a piece of land in the mining area covered by the current mining permit of Zhuge Shangyu Ilmenite Mine. In 2013, the road construction and the preliminary mining preparatory work in Zhuge Shangyu Ilmenite Mine were completed and the ore mining activity was carried out. The ore production was approximately 0.26 Mt in 2013.

(I) The technology improvement on the first production line of Zhuge Shangyu Ilmenite Mine was completed.

The Group has rented an iron ore processing plant and commenced the expansion of the processing capacity of Zhuge Shangyu Ilmenite Mine by installing the new titanium processing line in the new processing plant, where the processing capacity has first reached approximately 1.5Mt per annum. The expansion was completed in 2013.

In 2013, the Group focused on the equipment upgrading and improvement for the crushing system, the grinding system and the flotation system. In the meanwhile, the Group made further enhancement on the magnetic separation equipment, gravity separation equipment and dehydration drying equipment. Also, the Group added an ilmenite ore production line to the existing iron ore production line. The Group carried out the infrastructure construction of road, foundation equipment and plants.

Management Discussion and Analysis

The expected amount of investment was approximately RMB22.0 million for Phase I expansion of Zhuge Shangyu Ilmenite Mine in 2013. The actual expenditure in this relation was approximately RMB30.7 million in 2013, including approximately RMB13.8 million on purchases of new equipment, approximately RMB10.2 million on infrastructure construction of properties and plants, and approximately RMB6.7 million on the land tenancy fee which help the Group to get the mining land.

(II) The production and construction of the second production line of Zhuge Shangyu Ilmenite Mine was yet to be completed.

Since March 2013, the Group has carried out the construction of the processing and production lines with an annual processing capacity of 2Mt ilmenite ores in Zhuge Shangyu Ilmenite Mine.

1. **Civil works of the crushing system**. In 2013, the Group has completed the construction of coarse crushing, secondary and fine crushing, screening floor and raw material warehouse, and finished the installation of long belt conveyor from coarse crushing to secondary and fine crushing to raw material and screening floor to secondary and fine crushing. The Group has only completed the construction of the foundation of the ball mills as the manufacturer is yet to be confirmed. The concrete construction of the upper part of the ball mills foundation will start after the manufacturer is confirmed.

2. **Factory site formation**. The civil works for beneficiation crushing system were performed according to the actual terrain and the equipment technical process. The height of the site formation elevation was 233 meters and the site formation area was 60,000 square meters. As at the end of 2013, the site formation for surrounding areas and roads around the crushing system has been basically completed.

3. **The construction of the tailing storage**. Five dams of the tailing storage were constructed, including the construction of three new dams and the height adjustment of two dams. The internal and external facilities of the tailing storage included the first phase construction of flood control culvert pipe to 203 meters elevation and the second phase construction of flood control culvert pipe to 206 meters elevation. The first phase has been basically completed by using C15 concrete to reinforce the culvert pipe to meet the design requirements. In accordance with the design requirements of tailing storage, the construction of a stilling pool in the downstream of external dam flood control culvert pipe is required to build a buffer to reduce the damage to downstream natural terrain from heavy rains, and it has been basically completed. In accordance with the requirements of water supply system, a reclaiming tank by plastering cement mortar shall be constructed after building it with large piece of bricks and surrounded by a rubble retaining wall, and the construction has been basically completed at the end of 2013.

Management Discussion and Analysis

4. **The completion of the site formation of 35,000 volts substation at the end of November 2013**. This substation is the main power load facility for Zhuge Shangyu Ilmenite Mine Beneficiation Plant which has the capability to process 8 Mt of ilmenite ore. Its site formation has been completed and possesses the conditions for installation.

Approximately RMB24.1 million was expected to be invested for Zhuge Shangyu Ilmenite Mine for 2013. The actual expenditure was approximately RMB30.7 million in 2013, including approximately RMB28.4 million on the construction of road, site formation and tailing storage and the infrastructure construction of foundation equipment, and approximately RMB2.3 million on land tenancy fee.

There was no exploration activity carried out for Zhuge Shangyu Ilmenite Mine in 2013.

Qinjiazhuang Ilmenite Project

In 2013, the road construction and the preliminary mining preparatory work were completed. The Group intends to use the redundant parts and machines from the processing line of Yangzhuang Iron Mine and to further invest in the construction of an ilmenite ore processing line with an annual processing capacity of 1.5Mt of ilmenite ores. The Group added some new equipments, namely 3 magnetic separators, 3 brush rolls, 1 planar magnetic separator, 6 cyclones and 6 speed-regulating belt scales for the project. The Group carried out infrastructure construction of road, foundation equipment and plants.

The Group expected to invest approximately RMB16.0 million for Qinjiazhuang Ilmenite Project for 2013, and the actual expenditure in this relation was approximately RMB16.3 million, including approximately RMB1.7 million on equipment investment, approximately RMB11.6 million on infrastructure work of equipment and plants, and approximately RMB3.0 million on the land tenancy fee which help the Group to get the mining land.

There was no exploration development and mining production activities carried out in this mining area in 2013.

Luxing Titanium Mine

Luxing Titanium possesses a processing line with a processing capacity of 1.2Mt ilmenite ores per annum. The Group intends to invest in the technology improvement plan for Luxing Titanium Ilmenite Mine for 2013. The said technology improvement plan will enlarge the annual processing capacity of ilmenite ores of the processing line of Luxing Titanium Ilmenite Mine to a processing capacity of 1.5Mt ilmenite ore per annum and also the processing line to process the tailings with titanium content currently possessed by Luxing Titanium. As at the end of 2013, the technology improvement plan for Luxing Titanium was nearly completed. The Group added 2 ball mills, 90 groups of chutes and pressure filters and carried out the infrastructure construction of foundation equipment and plants.

The Group expected to invest approximately RMB3.8 million in the said technology improvement plan. The actual expenditure in this relation was approximately RMB4.3 million, including approximately RMB3.8 million on equipment investment and approximately RMB0.5 million on infrastructure investment.

There was no exploration activity carried out in this mining area in 2013. The ilmenite ore output in 2013 was approximately 1.46 Mt.

Gaozhuang Shangyu Ilmenite Project

There was no capital expenditure incurred in this mining area in 2013.

There was no mining activity and exploration activity carried out in this mining area in 2013.

Bashan Iron Project

There was no capital expenditure incurred in this mining area in 2013.

There was no mining activity and exploration activity carried out in this mining area in 2013.

RESOURCES AND RESERVES OF MINES

The mines and projects owned by the Group have significant iron and titanium ore reserves and resources. According to the report of the Micromine Consulting Services, an independent technical adviser, as at November 2011 as disclosed in the prospectus of the Company dated 17 April 2012, the total aggregate proved and probable reserves of ore in the Yangzhuang Iron Mine was approximately 43.93Mt at an average grade of approximately 24.58% TFe (total iron); the total proved and probable reserves of ore in the Zhuge Shangyu Ilmenite Mine was approximately 546.29Mt at an average grade of approximately 5.69% TiO2 and approximately 12.81% TFe (total iron); whereas the total proved and probable reserves of ore in our Qinjiazhuang Ilmenite Project was approximately 86.63 Mt at an average grade of approximately 4.50% TiO2 and approximately 13.56% TFe (total iron).

Micromine Consulting Services ("Micromine" or "MCS") has updated the resources and reserves of the above-mentioned mines using the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy ("JORC") by adopting the following assumptions:

Yangzhuang Iron Mine

1. Resources reporting cutoff grade: 15% Tfe

2. An mFe grade cut-off of 8.0% was applied to each mining block based on the breakeven analysis.

3. The Ore Reserve depletion for the Yangzhuang project was approximately 4.6Mt @ 24.6% TFe and 10.6% mFe compared to reported production of approximately 4.5Mt @ 24.1% TFe and 10.5% mFe for the period from November 2011 to December 2013 inclusive.

4. Stope design parameters are 50 metres in length by approximately 16 metres wide (matching the thickness of the orebody) with a 6 metre wide pillar between stopes as well as a crown pillar of 6 metres.

5. It is assumed that there are no significant geotechnical difficulties.

6. Inferred Resources were excluded from the mine design used to determine the Reserves.

Management Discussion and Analysis

7. Parameters for Short Hole Shrinkage mining method:

   Length of Block: 48m
   Minimum width of Block: 8m
   Pillar between Blocks: 6m
   Crown Pillar: 5m
   Distance between levels: 60m

Reason for the changes in the resources and reserves estimates:

During the period from November 2011 to December 2013, reserves is reduced by approximately 4.6 Mt due to the mining activities.

Zhuge Shangyu Ilmenite Mine

1. Resources reporting cutoff grade: 9.2% TiO2 equivalent

2. Underground Resources and Reserves remain unchanged from the previous (2012) MCS estimate.

3. Mineral resources are inclusive of the ore reserves.

4. The reserves include diluting material with an assumed diluent grade of 0%, total dilution used was 9%.

5. The MCS reserve is stated based on titanium with an iron credit.

6. The Open Pit Ore Reserve block model depletion for the Zhuge Shangyu resource was approximately 0.27Mt grading 5.69% TiO2 and 12.78% TFe compared to reported production of approximately 0.26Mt grading 6.75% TiO2 and 13.44% TFe for the period from September 2013 to December 2013 inclusive.

7. The underground mining height is 50m to 60m.

Reason for the changes in the resources and reserves estimates:

During the period from November 2011 to August 2013, there is no difference in resources and reserves. During the period from September 2013 to December 2013, reserves is reduced by approximately 0.27 Mt due to the mining activities.

Qinjiazhaung Ilmenite Project

No exploration or mining activities have been undertaken at the Qinjiazhuang Ilmenite Project between 1 November 2011 and 31 December 2013. MCS has concluded that there has been no material change to the mineral resources and reserves for the Qinjiazhaung Ilmenite Project, which remain the same as those published in the previous MCS report dated 17 April 2012.

Management Discussion and Analysis

Based on (1) the resources and reserves using the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy ("JORC") for the Yangzhuang Iron Mine, Zhuge Shangyu Ilmenite Mine and Qinjiazhuang Ilmenite Project as at November 2011 as disclosed in the prospectus of the Company dated 17 April 2012, and (2) the estimated amount of ores mined by the Group from November 2011 to December 2013, the Group's estimated Resources and Reserves as at 31 December 2013 were as follows:

JORC Mineral Resources as of 31 December 2013:

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiazhuang Ilmenite Project
Ore reserves (Mt)			
– proved	8.1	199.8	45.33
– probable	31.2	346.20 (Note)	41.30
Total ore reserves	39.3	546.0	86.63

Note: Out of the total probable reserves, approximately 256.29 Mt is underground reserves.

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiazhuang Ilmenite Project
Grade of total iron (Tfe) (%)			
– proved	24.15	12.78	13.50
– probable	24.65	12.83	13.61
Average grade of total iron (Tfe) (%)	24.55	12.82	13.56
Grade of titanium dioxide (TiO2) (%)			
– proved	N/A	5.76	4.52
– probable	N/A	5.65	4.48
Average grade of total titanium dioxide (TiO2) (%)	N/A	5.69	4.50

JORC Ore Reserves Estimate as of 31 December 2012:

	Yangzhuang Iron Mine	Zhuge Shangyu Ilmenite Mine	Qinjiazhuang Ilmenite Project
Ore reserves (Mt)			
– proved	8.73	200.08	45.33
– probable	32.94	346.20 (Note)	41.30
Total ore reserves	41.67	546.29	86.63

Note: Out of the total probable reserves, approximately 256.29 Mt is underground reserves.

Management Discussion and Analysis

Yangzhuang Iron Mine Resources Estimate as of 31 December 2013:

Resources Category	**Resources** *(Mt)*	**SG** *(t/m^3)*	**TFe** *(%)*	**mFe** *(%)*
Measured	13.5	3.25	26.0	10.6
Indicated	50.1	3.25	26.8	10.4
Total Measured and Indicated	63.6	3.25	26.6	10.4
Inferred	17.6	3.22	24.6	8.7
Total Resources	81.2	3.24	26.2	10.0

Note: Numbers have been rounded to reflect that the resources are an estimate.

Note: Resources may not ultimately be extracted at a profit.

Zhuge Shangyu Ilmenite Mine Resources Estimate as of 31 December 2013:

Resources Category	**Resources Tonnes** *(Mt)*	**SG** *(t/m^3)*	**TiO_2** *(%)*	**TFe** *(%)*
Measured	373	3.19	6.23	14.04
Indicated	261	3.13	6.14	14.18
Total Measured and Indicated	633	3.17	6.19	14.10
Inferred	4	3.13	5.92	15.03
Total Resources	637	3.16	6.19	14.10

Qinjiazhuang Ilmenite Project Resources Estimate as of 31 December 2013:

Resources Category	**Tonnes** *(Mt)*	**SG** *(t/m^3)*	**TiO_2** *(%)*	**TFe** *(%)*
Measured	46.2	3.23	4.90	14.72
Indicated	42.1	3.19	4.88	14.84
Total Measured and Indicated	88.3	3.21	4.89	14.78
Inferred	11.3	3.29	5.06	15.05
Total Resources	99.6	3.22	4.91	14.81

Management Discussion and Analysis

Luxing Titanium

Luxing Titanium is located in Yishui County, Shandong Province, the PRC. Luxing Titanium holds a mining licence in respect of the Luxing Titanium Mine issued by the Land and Resources Department of Shandong Province (山東省國土資源廳). Luxing Titanium has a mining license which covers a mining area of 0.829 km^2. According to a resources and reserves verification report in respect of the mine, it was estimated that 0.557 km^2 of the mining area had approximately 46.4 Mt of resources and reserves of Type 333 or above of ilmenite ores as at 31 December 2009 under PRC classification standard with an average grading of iron and titanium contents of approximately 14.6% and 6.6% respectively. As at 31 December 2013, we engaged 8th Institute of Geology and Mineral Exploration of Shandong Province to complete an updated verification report and it was estimated that 0.829 km^2 of the mining area had approximately 57.2 Mt of resources and reserves of Type 333 or above of ilmenite ores with an average grading of iron and titanium contents of approximately 14.5% and 6.6% respectively.

Reasons for the changes in the resources and reserves estimates:

1. The mining area is increased from 0.557 km^2 to 0.829 km^2; and the mining depth is changed from +254.7 meters +150 meters to +255 meters +68 meters, which lead to an increase in the reserves by 12.8 Mt.

2. The resources estimation of 4-wire sectional S4-2a area is increased from 3,723.46 square meters to 10,396.22 square meters, which lead to an increase in the reserves by approximately 2.17 Mt.

3. During the years from 2010 to 2013, reserves is reduced by approximately 4.13 Mt due to the mining activities.

The mining licence permits a production scale of 1.5 Mt ores per annum by way of open-pit mining. The term of this permit is 9 years commencing from December 2012 to December 2021.

Resources and Reserves Estimate as of 31 December 2013:

Resources and Reserves Category	**Luxing Titanium**
Resources and reserves of Type 333 or above of ilmenite ores (Mt) (under PRC classification standard)	57.2
Average grade of total iron (Tfe) (%)	14.5
Average grade of total titanium dioxide (TiO2) (%)	6.6

Management Discussion and Analysis

Gaozhuang Shangyu Ilmenite project

Gaozhuang Shangyu Ilmenite Project is located in Yishui County and Yinan County of Shandong Province, the PRC. The Company has engaged an independent third party surveying agency to conduct preliminary exploration work in the Gaozhuang Shangyu Ilmenite Project and the work was completed in 2012. It has exploration rights over area of approximately 1.53 km^2., with the exploration term expiring in March 2015. According to Titanium Mine Detailed Survey Report in respect of the mine, it was estimated that the exploration area had approximately 46.0 Mt of resources of Type 332 and 333 of ilmenite ores in September 2012 under PRC classification standard with an average grading of iron and titanium contents of approximately 12.4% and 6.8%. There has been no change in resources and reserves. The Group did not have any plan to carry out mining work or other expansion plan for the time being.

Resources and Reserves Estimate as of September 2012:

Resources and Reserves Category	**Gaozhuang Shangyu**
Resources of Type 332 and 333 of ilmenite ores (Mt) (under PRC classification standard)	46.0
Average grade of total iron (Tfe) (%)	12.4
Average grade of total titanium dioxide (TiO2) (%)	6.8

Bashan Iron Project

No exploration or mining activities have been taken at Bashan Iron Project in 2013.

EXPLORATION LICENCES IN AUSTRALIA

As at 31 December 2013, Ishine International owns 13 granted exploration licenses located in Western Australia, 6 granted exploration licenses located in South Australia and 4 granted exploration licenses located in Queensland, Australia.

The Mt Watson Project (the "Project") is a joint venture between Ishine International (70%) and Kabiri Resources Pty Ltd ("Kabiri Resources") (30%). The Project has been under the process of drilling during the year of 2013. The Project is situated approximately 120km north of Mt Isa in north-west Queensland and comprises two tenements (EPM15933 and EPM15986) covering an area of 103.6km^2. Seven diamond drillholes (totalling 921.80m) were drilled on tenement EPM15986 on previously identified versatile time domain electromagnetic survey (VTEM) anomalies 5km to the south-west and along strike of the Mt Watson copper mine. The detailed drillhole coordinates, drilling orientation and drillhole locations are disclosed in the announcement dated 21 March 2014 on Australian Securities Exchange ("ASX"). For details of the Project, please refer to the announcement of Ishine International dated 21 March 2014.

There is no other exploration activity in Australia.

The tenement expenditure was RMB0.5 million (AUD0.09 million) and the capitalised tenement acquisition cost for the Project was RMB3.3 million (AUD0.6 million).

Management Discussion and Analysis

The following tables are summaries of Ishine International's tenements in Australia:

Western Australian Tenements

Tenement	Registered holder/ applicant	Grant date	Expiry Date	Area size and locality	Current status	Status of renewal of tenement (if expiring within 1 year)	Target minerals
E80/4478	Ishine International	10-Oct-11	09-Oct-16	39 Blocks Halls Creek Shire, 126km^2	Active	N/A	Nickel, Copper, Cobalt
E70/3880	Ishine International	28-Mar-11	27-Mar-16	70 Blocks Narembeen Shire, 203km^2	Active	N/A	Gold
E80/4450	Ishine International	06-Oct-11	05-Oct-16	41 Blocks Halls Creek Shire, 129km^2	Active	N/A	Nickel, Copper, Cobalt
E80/4448	Ishine International	06-Oct-11	05-Oct-16	154 Blocks Halls Creek Shire, 501km^2	Active	N/A	Iron
E08/2222	Ishine International	19-Apr-12	18-Apr-17	106 Blocks Gascoyne, 332km^2	Active	N/A	Manganese, Uranium
E77/1786	Ishine International	22-Mar-11	21-Mar-16	70 Blocks Merredin, Narembeen and Yilgarn Shires, 204km^2	Active	N/A	Iron
E37/1073	Ishine International	21-Jul-11	20-Jul-16	33 Blocks Laverton and Leonora Shires, 99km^2	Active	N/A	Nickel, Gold

Management Discussion and Analysis

Tenement	Registered holder/ applicant	Grant date	Expiry Date	Area size and locality	Current status	Status of renewal of tenement (if expiring within 1 year)	Target minerals
E39/1582	Ishine International	27-Apr-12	26-Apr-17	6 Blocks Laverton, 18km^2	Active	N/A	Nickel, Gold
E37/1074	Ishine International	14-Sep-11	13-Sep-16	4 Blocks Leonora Shire, 10km^2	Active	N/A	Nickel, Gold
E45/3791	Ishine International	10-Jul-12	09-Jul-17	14 Blocks Pilbara, 44km^2	Active	N/A	Iron
E80/4639	Ishine International	03-Aug-12	02-Aug-17	40 Blocks Halls Creek Shire, 130km^2	Active	N/A	Iron
E80/4619	Ishine International	25-Sep-12	24-Sep-17	16 Blocks Moola Bulla and Kimberley, 52km^2	Active	N/A	Nickel, Copper, Gold
E08/2239	Ishine International	1-May-13	30-Apr-18	34 Blocks Pingandy and Ashburton, 103km^2	Active	N/A	Manganese

Management Discussion and Analysis

South Australia

Tenement	Registered holder/ applicant	Grant date	Expiry Date	Area size and locality	Current status and plan	Status of renewal of tenement (if expiring within 1 year)	Commodity
EL4829 (ELA-198/10)	Ishine International	20-Jan-12	19-Jan-16	736 km^2 Ooldea Range Area	Active	N/A	Copper, Nickel, Lead, Zinc
EL4830 (ELA-234/10)	Ishine International	20-Jan-12	19-Jan-16	309 km^2 Mulga Well Area	Active	N/A	Gold, Cobalt, Uranium
EL4831 (ELA-239/10)	Ishine International	20-Jan-12	19-Jan-16	992 km^2 Mulgaria Area	Active	N/A	Uranium
EL4832 (ELA-252/10)	Ishine International	20-Jan-12	19-Jan-16	219 km^2 Willouran Ranges	Active	N/A	Uranium
EL4833 (ELA-259/10)	Ishine International	20-Jan-12	19-Jan-16	969 km^2 Finniss Springs Area	Active	N/A	Uranium
EL4834 (ELA-260/10)	Ishine International	20-Jan-12	19-Jan-16	690 km^2 Daekoo Hill Area	Active	N/A	Uranium

Management Discussion and Analysis

Queensland

Tenement	Registered holder/ applicant	Grant date	Expiry Date	Area size and locality	Current status and plan	Status of renewal of tenement (if expiring within 1 year)	Commodity
EPM19142	Ishine International	13-May-13	12-May-16	37 Blocks Mt Jordyn-Boomarra	Active	N/A	Copper, Molybdenum
EPM15933	Owned as to 70% by Ishine International and 30% by Kabiri Resources	11-Mar-08	07-May-17	8 Blocks Mt Watson	Active	N/A	Copper, Gold, Molybdenum
EPM15986	Owned as to 70% by Ishine International and 30% by Kabiri Resources	15-Jan-08	07-May-17	19 Blocks Mt Watson	Active	N/A	Copper, Gold, Molybdenum
EPM15723	Owned as to 70% by Ishine International and 30% by Kabiri Resources	22-Apr-08	23-May-18	37 Blocks Boomarra	Active	N/A	Copper, Gold, Molybdenum

Management Discussion and Analysis

EXPLORATION, DEVELOPMENT AND MINING PRODUCTION ACTIVITIES AND COSTS

The table below sets out a summary of the total operating costs of the Group.

	For the year ended 31 December	
	2013	2012
	Kt	*Kt*
Production Volume		
Feed tonnage	3,758	2,059

	For the year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Mining Costs		
Workforce employment	56,291	55,900
Transportation	18,811	10,538
Fuel, electricity, water and other services	7,892	3,225
Non-income taxes, royalties and other governmental charges; and	18,511	16,323
Subtotal	101,505	85,986
Processing Costs		
Workforce employment	25,939	16,121
Consumables	18,375	11,155
Fuel, electricity, water and other services	61,962	42,488
Administration	13,568	13,741
Transportation	7,978	6,737
Non-income taxes, royalties and other governmental charges; and	711	400
Subtotal	128,533	90,642
Total Mining and Processing Cost	230,038	176,628
Management Expenses		
Environmental protection and monitoring	4,631	523
Other administration cost	39,525	45,611
Product marketing and transport	2,370	1,700
Non-income taxes, royalties and other governmental charges; and	1,434	1,210
Subtotal	47,960	49,044
Total Operating Expenses	277,998	225,672
Other Costs		
Depreciation and Amortisation	37,981	32,126
Total Production Cost	315,979	257,798

Management Discussion and Analysis

CONTRACTS AND COMMITMENTS

The Company has signed 239 new contracts with a total amount of RMB92.5 million for the year ended 2013. The details are summarised as below:

Yangzhuang Iron Mine

Type of contracts		**Number of contracts signed**	**Total amount** *RMB million*
(i)	Equipment suppliers (jaw crusher, cone crusher, dry sorting machine, vibrating screen and other mechanical equipment)	59	17.7
(ii)	Technical service	8	0.8
(iii)	Infrastructure and projects	14	4.3
Total		81	22.8

Zhuge Shangyu Ilmenite Mine

Type of contracts		**Number of contracts signed**	**Total amount** *RMB million*
(i)	Equipment suppliers (ball mill, magnetic separator, roller presses, filter, drying equipment and other mechanical equipment)	46	14.9
(ii)	Technical service	6	9.5
(iii)	Infrastructure and projects	43	15.4
(iv)	Land for mining and construction	7	9
Total		102	48.8

Qinjiazhuang Ilmenite Project

Type of contracts		**Number of contracts signed**	**Total amount** *RMB million*
(i)	Equipment suppliers (high efficiency separator, flat magnetic separator, cyclone and other mechanical equipment)	5	2.3
(ii)	Technical service	3	0.2
(iii)	Infrastructure and projects	4	8.4
(iv)	Land for mining and construction	4	3.0
Total		16	13.9

Management Discussion and Analysis

Luxing Titanium Mine

Type of contracts		Number of contracts signed	Total amount *RMB million*
(i)	Equipment suppliers (filter, ball mill, high-frequency vibrating screen and other mechanical equipment)	31	6.4
(ii)	Infrastructure and engineering companies	9	0.6
Total		40	7.0

FINANCIAL REVIEW

For the year ended 31 December 2013, the Group recorded revenue of approximately RMB667.9 million as compared with approximately RMB871.5 million for the year ended 31 December 2012, representing a decrease of approximately 23.4%. For the year ended 31 December 2013, approximately 79.6% of the Group's total sales consisted of the sales of iron concentrates and titanium concentrates produced by the Group's processing plants, while the remaining approximately 20.4% of total sales were mainly derived from trading of coarse iron powder. The Group mainly sold iron concentrates and titanium concentrates produced by the Group to iron pellets and steel producers in Shandong Province, the PRC. In addition to the above customers of iron and titanium concentrates, the Group sold coarse iron powder to other customers engaged in trading and manufacturing of iron-related products in the PRC.

PRICES OF THE GROUP'S PRODUCTS

Iron Concentrates

The unit price of approximately 65% iron concentrates produced by the Group mainly depends on the iron content contained in the Group's iron concentrates and is affected by the market conditions, including but not limited to the global, PRC and Shandong supply of and the demand for iron ore products and the prosperity of the Shandong steel industry.

The Group's average unit selling price of iron concentrates for the year ended 31 December 2013 was approximately RMB953.4 per tonne, representing an increase of approximately 0.6% as compared with the average unit selling price of approximately RMB947.5 per tonne for the year ended 31 December 2012. Such increase was mainly due to the gradual recovery of China's economy in the second half year of 2013.

Titanium Concentrates

Since 2013, the Group has been engaging in ilmenite ore exploration, ilmenite ore mining and ilmenite ore processing. The unit price of titanium concentrates produced by the Group mainly depends on the titanium content contained in the Group's titanium concentrates and is affected by the market conditions, including but not limited to the global, PRC and Shandong supply of and the demand for ilmenite ore products and the prosperity of the Shandong steel industry.

For the year ended 31 December 2013, the Group produced approximately 29.3 Kt and approximately 10.9 Kt of titanium concentrates with approximately 20%-30% and 46% titanium content respectively. The average unit selling price of the approximately 20%-30% and 46% titanium concentrates were approximately RMB190.9 and RMB844.3 per tonne respectively.

Management Discussion and Analysis

Revenue

Revenue was generated from the sale of the Group's products to external customers net of value added tax as well as from our trading activities. The Group's revenue from the sales of the Group's products is mainly affected by the Group's total sales volume which in turn is subject to the Group's mining and processing capacity and market conditions and price of the Group's products. The following table sets forth a breakdown of the Group's revenue by segments for the periods indicated:

	For the year ended 31 December 2013 RMB'000		For the year ended 31 December 2012 RMB'000	
Revenue				
Sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine	271,710	40.7%	289,003	33.2%
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	3,786	0.6%	–	–
– from ilmenite ore of Luxing Titanium Mine	68,492	10.2%	–	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	181,148	27.1%	260,029	29.8%
	525,136	78.6%	549,032	63.0%
Sales of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	598	0.1%	–	–
– from ilmenite ore of Luxing Titanium Mine	6,156	0.9%	–	–
	6,754	1.0%	–	–
Sales of trading activities				
– from coarse iron powder	136,014	20.4%	310,936	35.7%
– from iron concentrates	–	–	11,553	1.3%
	136,014	20.4%	322,489	37.0%
Total	667,904	100%	871,521	100%

Management Discussion and Analysis

The following table sets forth a breakdown of the volume of iron concentrates, titanium concentrates and trading products sold by the Group for the periods indicated:

	For the year ended 31 December 2013 *(Kt)*	For the year ended 31 December 2012 *(Kt)*
Sales volume of iron concentrates produced by the Group		
– from iron ore of Yangzhuang Iron Mine	285.3	310.3
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	5.9	–
– from ilmenite ore of Luxing Titanium Mine	102.0	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	189.7	269.2
	582.9	579.5
Sales volume of titanium concentrates produced by the Group		
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	0.7	–
– from ilmenite ore of Luxing Titanium Mine	22.7	–
	23.4	–
Sales volume of trading activities		
– from coarse iron powder	196.0	432.3
– from iron concentrates	–	13.3
	196.0	445.6
Total	802.3	1,025.1

Management Discussion and Analysis

The following table shows the breakdown of the Group's total production volumes of iron concentrates by types of materials used:

	For the year ended 31 December 2013 (Kt)	(approximately)	For the year ended 31 December 2012 (Kt)	(approximately)
Amount of iron concentrates produced from iron ore of Yangzhuang Iron Mine	327.9	53.8%	310.3	56.4%
Amount of iron concentrates produced from ilmenite ore of Zhuge Shangyu Ilmenite Mine	6.3	1.0%	–	–
Amount of iron concentrates produced from ilmenite ore of Luxing Titanium Mine	91.2	15.0%	–	–
Amount of iron concentrates produced from coarse iron powder purchased from other suppliers	184.3	30.2%	239.4	43.6%
Total	609.7	100%	549.7	100%

Revenue from sales of iron concentrates and titanium concentrates produced by the Group represents approximately 78.6% and 1.0% respectively of the Group's total revenue for the year ended 31 December 2013. The Group also sourced coarse iron powder for on sale to its trading customers.

The Group's revenue decreased by approximately RMB203.6 million, or 23.4%, to approximately RMB667.9 million in the year ended 31 December 2013, as compared with approximately RMB871.5 million for the year ended 31 December 2012. The decrease in revenue was primarily due to (1) the decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB17.3 million which was partially offset by the consolidation of sales of iron concentrates produced from ilmenite ore of Zhuge Shangyu and ilmenite ore of Luxing Titanium Mine by approximately RMB3.8 million and approximately RMB68.5 million for the year ended 31 December 2013; (2) the decrease in sales of iron concentrates produced from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder by approximately RMB78.9 million, and (3) the decrease in turnover by approximately RMB174.9 million from trading of coarse iron powder from approximately RMB310.9 million for the year ended 31 December 2012 to approximately RMB136.0 million for the year ended 31 December 2013.

The decrease in sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine was mainly due to the fact that the management strategically increased the inventory during the steel market downturn.

Sales derived from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder dropped by approximately 30.3% from approximately RMB260.0 million for the year ended 31 December 2012 to approximately RMB181.1 million for the year ended 31 December 2013, mainly as a result of the slowdown of China's economy and the decline in demand from steel makers in Shandong Province and the strategic decision of the management to decrease production volume and sales volume of the iron concentrates produced from mixing iron concentrates produced from coarse iron powder.

Management Discussion and Analysis

The total sales generated from trading activities significantly dropped by approximately 57.8% which was mainly due to the decrease of trading turnover of coarse iron powder from approximately RMB310.9 million for year ended 31 December 2012 to approximately RMB136.0 million for the year ended 31 December 2013. The decrease resulted primarily from decline in demand from the steel makers in Shandong Province and the strategic decision of the management to decrease the sales volume of the trading of iron coarse powder in order to reduce the operational risk from trading activities.

Cost of Sales

The following table sets forth a breakdown of the Group's cost of sales by segments for the periods indicated:

	For the year ended 31 December 2013 RMB'000		For the year ended 31 December 2012 RMB'000	
Cost of Sales				
Cost of sales of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine	156,766	29.9%	181,562	25.3%
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	3,663	0.7%	–	–
– from ilmenite ore of Luxing Titanium Mine	63,738	12.2%	–	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	163,850	31.2%	232,609	32.3%
	388,017	74.0%	414,171	57.6%
Cost of sales of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	596	0.1%	–	–
– from ilmenite ore of Luxing Titanium Mine	5,816	1.1%	–	–
	6,412	1.2%	–	–
Cost of sales of trading activities				
– from coarse iron powder	129,277	24.7%	291,460	40.5%
– from iron concentrates	–	–	11,264	1.6%
	129,277	24.7%	302,724	42.1%
Exploration costs incurred by Ishine International	539	0.1%	1,820	0.3%
Total	524,245	100%	718,715	100%

Management Discussion and Analysis

Cost of sales was mainly incurred during production of iron concentrates and titanium concentrates from purchase of iron-related products for trading purposes. For the costs of sales incurred during production activities, it mainly consists of mining contracting fees, blasting contracting fees, cost of other raw materials, power and utilities expenses, employee benefits, depreciation and amortisation, and other overhead costs.

Total cost of sales decreased by approximately RMB194.5 million, or approximately 27.1%, to approximately RMB524.2 million for the year ended 31 December 2013, as compared with approximately RMB718.7 million for the year ended 31 December 2012. Such decrease was consistent with the decrease in the Group's revenue during the year ended 31 December 2013, which was mainly due to (1) the decrease in the sales volume by approximately 25.0 Kt and the decrease in the unit cost of sales of the iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB35.6 per tonne from approximately RMB585.1 per tonne for the year ended 31 December 2012 to approximately RMB549.5 per tonne for the year ended 31 December 2013; (2) the decreases in sales volume of iron concentrates produced from mixing iron concentrates purchased from other supplies and/or produced from coarse iron powder by approximately 79.5 Kt for the year ended 31 December 2013; (3) the decrease in sales volume from trading of iron coarse powder by approximately 236.3 Kt for the year ended 31 December 2013; and also (4) the decrease in the exploration cost incurred by the subsidiary, Ishine International by approximately RMB1.3 million.

Gross profit and gross profit margin

The following table sets forth a breakdown of the Group's gross profit and gross profit margins by segments for the years indicated:

	For the year ended 31 December 2013 *RMB'000*		For the year ended 31 December 2012 *RMB'000*	
Gross profit				
– Gross profit of iron concentrates produced by the Group				
– from iron ore of Yangzhuang Iron Mine	114,944	80.0%	107,441	70.3%
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	123	0.1%	–	–
– from ilmenite ore of Luxing Titanium Mine	4,754	3.3%	–	–
– from mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder	17,298	12.1%	27,420	18.0%
	137,119	95.5%	134,861	88.3%

Management Discussion and Analysis

	For the year ended 31 December 2013 RMB'000		For the year ended 31 December 2012 RMB'000	
Gross profit				
– Gross profit of titanium concentrates produced by the Group				
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	2	–	–	–
– from ilmenite ore of Luxing Titanium Mine	340	0.2%	–	–
	342	0.2%	–	–
Gross profit of trading activities				
– from coarse iron powder	6,737	4.7%	19,476	12.7%
– from iron concentrates	–	–	289	0.2%
	6,737	4.7%	19,765	12.9%
Exploration costs incurred by Ishine International	(539)	(0.4)%	(1,820)	(1.2)%
Total	143,659	100%	152,806	100%

	For the year ended 31 December 2013	For the year ended 31 December 2012
Gross profit margin		
Gross profit margin of iron concentrates		
– from iron ore of Yangzhuang Iron Mine	42.3%	37.2%
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	3.2%	–
– from ilmenite ore of Luxing Titanium Mine	6.9%	–
– from mixing iron concentrates purchase from other suppliers and/or produced from coarse iron powder	9.5%	10.6%
Gross profit margin of titanium concentrates		
– from ilmenite ore of Zhuge Shangyu Ilmenite Mine	0.3%	–
– from ilmenite ore of Luxing Titanium Mine	5.5%	–
Gross profit margin of trading activities		
– from coarse iron powder	–	2.5%
– from iron concentrates	5.0%	6.3%
Overall gross profit margin	21.5%	17.5%

Management Discussion and Analysis

Gross profit decreased by approximately RMB9.1 million, or approximately 6.0% from approximately RMB152.8 million for the year ended 31 December 2012 to approximately RMB143.7 million for the year ended 31 December 2013. The main reasons for the decline were (1) the decrease in gross profit of trading of coarse iron powder by approximately RMB12.8 million from approximately RMB19.5 million for the year ended 31 December 2012 to approximately RMB6.7 million for the year ended 31 December 2013; (2) the decrease in gross profit of iron concentrates produced from mixing iron concentrates purchased from the other suppliers and/or produced from the coarse iron powder by approximately RMB10.1 million from approximately RMB27.4 million for the year ended 31 December 2012 to approximately RMB17.3 million for the year ended 31 December 2013; which were offset by (i) the increase in gross profit of iron concentrates produced from the iron ore of Yangzhuang Iron Mine by approximately RMB7.5 million from approximately RMB107.4 million for the year ended 31 December 2012 to approximately RMB114.9 million for the year ended 31 December 2013; (ii) the increase in gross profit of iron concentrates and titanium concentrates produced from the ilmenite ore of Luxing Titanium Mine by approximately RMB4.8 million and approximately RMB0.3 million from RMB nil for the year ended 31 December 2012; and (iii) the decrease in tenement commitment expenditure by approximately RMB1.3 million in Ishine International.

Overall gross profit margin increased from 17.5% to 21.5% for the year ended 31 December 2013 as compared with that for the year ended 31 December 2012. This was mainly due to the change of the sale mix of the products. In order to minimise the operational risk, the Company's management decided to decrease the sales volume of (1) mixing iron concentrates purchased from other suppliers and/or produced from coarse iron powder, and (2) trading of coarse iron powder which have lower gross profit margin compared to the iron concentrates produced from Yangzhuang Iron Mine. The proportion of sales of iron concentrates produced from iron ore of Yangzhuang Iron Mine with a higher gross profit margin, increased from approximately 33.2% for the year ended 31 December 2012 to approximately 40.7% for the year ended 31 December 2013, which was mainly due to the decrease in the unit cost of sales of the iron concentrates produced from iron ore of Yangzhuang Iron Mine by approximately RMB35.6 per tonne from approximately RMB585.1 per tonne for the year ended 31 December 2012 to approximately RMB549.5 per tonne for the year ended 31 December 2013.

Selling and distribution costs

Selling and distribution costs increased by approximately 13.6% from approximately RMB11.0 million for the year ended 31 December 2012 to approximately RMB12.5 million for the year ended 31 December 2013. This was primarily due to the increase in transportation costs incurred by the Group on behalf of the Group's customers and were added to the contracted sales price.

	For the year ended 31 December 2013 *RMB'000*	For the year ended 31 December 2012 *RMB'000*
Transportation costs	**12,521**	10,951
Other expenses	**–**	22
	12,521	10,973

Management Discussion and Analysis

Administrative expenses

Administrative expenses mainly constitute employee benefits, depreciation and amortisation, professional fees, travelling expenses, entertainment expenses and other expenses. The following table presents the breakdown of the Group's administrative expenses for the years indicated:

	For the year ended 31 December 2013 *RMB'000*	For the year ended 31 December 2012 *RMB'000*
Employee benefits	14,001	8,747
Other tax and surcharges	1,434	1,210
Depreciation and amortisation	9,001	8,580
Professional fees	4,801	12,189
Travelling expenses	2,002	998
Entertainment expenses	2,161	820
Vehicle fees	2,370	1,700
Office fees	849	597
Impairment losses	744	6,988
Other expenses	10,597	7,215
Total	47,960	49,044

Administrative expenses decreased from approximately RMB49.0 million for the year ended 31 December 2012 to approximately RMB48.0 million for the year ended 31 December 2013. This decrease was mainly due to (1) the decrease in the impairment loss of Boomarra project and the listed shares held in Athena Resources Limited for Ishine International by approximately RMB6.3 million, from approximately RMB7.0 million for the year ended 31 December 2012 to approximately RMB0.7 million for the year ended 31 December 2013, which is caused by the impairment of available-for-sale financial assets; (2) the decrease of professional fees by approximately RMB7.4 million, from approximately RMB12.2 million for the year ended 31 December 2012 to approximately RMB4.8 million for the year ended 31 December 2013, due to the decrease in one-off listing professional fees incurred in the first half of 2012; and (3) partly offset by the increase in administrative expenses incurred due to the Acquisition and consolidation of Luxing Titanium.

Other gains, net

The Group made other gain of approximately RMB79.5 million for the year ended 31 December 2013 as compared with approximately RMB7.4 million for the year ended 31 December 2012 which was mainly due to (1) the one-off gain on bargain purchase (a negative goodwill of approximately RMB60.3 million) as a result of the Acquisition, which was completed in the first quarter of 2013. The one-off gain on bargain purchase (negative goodwill) was mainly derived from the difference between the fair value of 95% of Luxing Titanium's identifiable net assets and consideration paid by the Group for the Acquisition; and (2) the increase in the amount granted by the PRC government by approximately RMB11.4 million to approximately RMB19.4 million upon the recognition of the achievement in the areas of social responsibilities and integrated utilisation of resources.

Management Discussion and Analysis

Finance costs, net

Net finance costs mainly represented interest expense on bank loans, and on discount of bank's acceptance notes of the Group, offset by interest income of bank deposits. Finance costs decreased from approximately RMB33.7 million for the year ended 31 December 2012 to approximately RMB29.9 million for the year ended 31 December 2013 by approximately 11.3%, which was mainly due to the decrease in interest expense on bank loans balance by approximately 16.6% from approximately RMB29.5 million as at 31 December 2012 to approximately RMB24.6 million as at 31 December 2013.

Total comprehensive income

Total comprehensive income increased from approximately RMB44.1 million for the year ended 31 December 2012 to approximately RMB106.9 million for the year ended 31 December 2013 by 142.4%, which was mainly due to the (1) the one-off gain on bargain purchase (a negative goodwill of approximately RMB60.3 million) as a result of the acquisition of Luxing Titanium, which was completed in the first quarter of 2013. The one-off gain on bargain purchase (negative goodwill) was mainly derived from the difference between the fair value of 95% of Luxing Titanium's identifiable net assets and consideration paid by the Group for the Acquisition; and (2) the increase in the amount granted by the PRC government by RMB11.4 million upon the recognition of the achievement in the areas of social responsibilities and integrated utilisation of resources; the increases from the above factors were offset by the decrease in gross profit by approximately RMB9.1 million, or approximately 6.0% for the year ended 31 December 2013 as compared with the year ended 31 December 2012 mainly due to (1) the decrease in gross profit of trading of coarse iron powder by approximately RMB12.8 million from approximately RMB19.5 million for the year ended 31 December 2012 to approximately RMB6.7 million for the year ended 31 December 2013; (2) the decrease in gross profit of iron concentrates produced from mixing iron concentrates purchased from the other suppliers and/or produced from the coarse iron powder by approximately RMB10.1 million from approximately RMB27.4 million for the year ended 31 December 2012 to approximately RMB17.3 million for the year ended 31 December 2013; which were offset by (i) the increase in gross profit of iron concentrates produced from the iron ore of Yangzhuang Iron Mine by approximately RMB7.5 million from approximately RMB107.4 million for the year ended 31 December 2012 to approximately RMB114.9 million for the year ended 31 December 2013; (ii) the increase in gross profit of iron concentrates and titanium concentrates produced from the ilmenite ore Luxing Titanium Mine by approximately RMB4.8 million and approximately RMB0.3 million from RMB nil for the year ended 31 December 2012 to approximately RMB4.8 million and approximately RMB0.3 million for the year ended 31 December 2013; and (iii) the decrease in tenement commitment expenditure by approximately RMB1.3 million in Ishine International.

Property, plant and equipment

Property, plant and equipment as at 31 December 2013 increased by approximately RMB159.0 million, or approximately 74.5%, from approximately RMB213.5 million for the year ended 31 December 2012 to approximately RMB372.5 million for the year ended 31 December 2013. Such increase was mainly due to (1) the increase in fixed assets of approximately RMB77.4 million due to the acquisition and consolidation of Luxing Titanium; (2) the improvement of the processing facilities of Yangzhuang Iron Mine; (3) the development of the mining and processing capacities of Zhuge Shangyu Ilmenite Mine, which incurred the costs of (i) building new facility for the dry up tailings; (ii) the construction of relevant infrastructure facilities; and (iii) purchase of manufacturing equipment; (4) the improvement of the processing facilities of Luxing Titanium; and (5) the improvement of the processing facilities and infrastructure facilities of Qinjiazhuang Ilmenite Mine.

Management Discussion and Analysis

Inventories

The Group's inventories consisted of raw materials, finished goods and spare parts and others. Raw materials included iron ores and other raw materials which mainly consisted of coarse iron powder to be processed into iron concentrates. The following table sets forth the Group's balances of inventory as of each of the statement of financial position dates:

	As at 31 December 2013 *RMB'000*	As at 31 December 2012 *RMB'000*
Raw materials		
– Iron ores and ilmenite ore	**1,406**	238
– Other raw materials	**1,431**	8,612
Finished goods	**26,161**	3,589
Spare parts and others	**6,606**	3,833
Total	**35,604**	16,272

The balance of inventories increased by approximately RMB19.3 million mainly due to the increase in finished goods of approximately RMB22.6 million and the increase in iron ores and ilmenite ores of approximately RMB1.2 million. The management strategically increased the inventory during the steel market downturn.

Trade receivables

The Group's sales are generally made on credit terms of 90 days, and trade receivables were settled by either bank transfer or bank acceptance notes with maturity within 6 months. Aging analysis of trade receivables as at 31 December 2013 and 2012 was as follows:

	As at 31 December 2013 *RMB'000*	As at 31 December 2012 *RMB'000*
Trade receivables		
– Less than 3 months	**164,614**	162,309
– 3 months to 6 months	**24,249**	68,648
– 6 months to 1 year	**1,554**	40,759
– 1 year and above	**30**	–
Total	**190,447**	271,716

Management Discussion and Analysis

Trade receivables decreased from approximately RMB271.7 million as at 31 December 2012 to approximately RMB190.4 million as at 31 December 2013 mainly due to (1) the implementation of appropriate measures by the Group to make sure the trade receivables can be settled by the customers in the sluggish iron and steel market; (2) the decrease in revenue from selling of iron concentrates and trading of coarse iron powder for the year ended 31 December 2013. The decrease in trade receivables was partially offset by the increase in trade receivables of approximately RMB33.1 million due to the acquisition and consolidation of Luxing Titanium.

Notes receivables

Notes receivables are bank acceptance notes from various banks mainly provided by the Group's customers as settlement of account receivables.

	As at 31 December 2013	As at 31 December 2012
	RMB'000	*RMB'000*
Notes receivables		
– Bank acceptance notes	**206,188**	261,739

Notes receivables decreased from approximately RMB261.7 million as at 31 December 2012 to approximately RMB206.2 million as at 31 December 2013 mainly due to the decrease in revenue from selling of iron concentrates and trading of coarse iron powder for the year ended 31 December 2013.

Trade payables

	As at 31 December 2013	As at 31 December 2012
	RMB'000	*RMB'000*
Trade payables	**73,749**	59,936

Trade payables increased from approximately RMB59.9 million as at 31 December 2012 to approximately RMB73.7 million as at 31 December 2013.

Management Discussion and Analysis

Bank borrowings

The following table sets forth the breakdown of bank borrowings as of each of the statement of financial position dates:

	As at 31 December 2013 *RMB'000*	As at 31 December 2012 *RMB'000*
Non-current		
– Bank borrowings	–	100,000
Current		
– Bank borrowings	110,000	189,900
– Short-term portion of non-current borrowings	100,000	60,000
	210,000	249,900
Total	210,000	349,900

Total bank borrowings as at 31 December 2013 decreased to approximately RMB210.0 million from approximately RMB349.9 million as at 31 December 2012 mainly due to the decrease in fund needed for the sales volume of the trading activity from sales of coarse iron powder, in order to minimize the operating risk.

As at 31 December 2013, bank borrowings of approximately RMB130.0 million were pledged by a mining right of Shandong Ishine and Luxing Titanium with book value of approximately RMB118.0 million.

Borrowings of RMB20.0 million were jointly guaranteed by Linyi Runxing Investment Co., Ltd. and the controlling shareholder of the Company, an executive Director and chairman of the Company, Mr. Li Yunde, which was borrowed after the listing of the Company. Also, borrowings of RMB30.0 million and RMB30.0 million were guaranteed by Shandong Zhonglian Tegang Co. Ltd. and Yishui Hesheng Minerals Co., Ltd., both an independent third party, respectively.

Ishine International

Ishine International, the Company's non-wholly owned subsidiary, is principally engaged in the business of the exploration of mineral resources in Australia, and its shares are listed on the Australian Securities Exchange. The principal activity in 2013 was exploration activities. Net loss incurred by Ishine International for the year ended 31 December 2013 was approximately RMB7.5 million as compared to net loss of approximately RMB14.4 million for the year ended 31 December 2012. The decrease in net loss was mainly contributed by (1) the impairment loss of approximately RMB4.0 million (equivalent to approximately AUD613,000) for the Boomarra project resulting from the decision of the board of Ishine International to stop pursuing further interest in Boomarra Project during the year ended 31 December 2012; and (2) the impairment loss of approximately RMB3.0 million (equivalent to approximately AUD457,000) of the listed shares held in Athena Resources Limited due to the recognition of fair value loss as an impairment loss on the basis that it was considered as a permanent diminution in value during the year ended 31 December 2012.

Management Discussion and Analysis

CAPITAL STRUCTURE

The Company's issued share capital as at 31 December 2013 is HKD7,208,715.84 divided into 720,871,584 shares of HKD0.01 each.

The Group adopts a prudent treasury policy, and its gearing ratio (calculated as net debt divided by the total capital) as at 31 December 2013 was approximately 17.2% (31 December 2012: approximately 31.1%). The current ratio (calculated as current assets divided by current liabilities) as at 31 December 2013 was approximately 1.6 times (31 December 2012: approximately 2.3 times).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the total amount of the borrowings of the Group was approximately RMB210.0 million (31 December 2012: approximately RMB349.9 million). The Group settled borrowings in the amount of approximately RMB433.9 million for the year ended 31 December 2013. The Group's cash and bank balances amounted to approximately RMB64.1 million (31 December 2012: approximately RMB82.9 million).

MATERIAL ACQUISITIONS OR DISPOSALS

Shandong Ishine entered into a sale and purchase agreement with Mr. Yang Wenxing, on 19 December 2012 to acquire 95% of the equity interests of Luxing Titanium at a consideration of RMB20.9 million (the "Acquisition"). The Acquisition was completed in the first quarter of 2013. Luxing Titanium is a mining company based in Shandong Province, the PRC and is principally engaged in ilmenite ore mining and processing to produce iron concentrates and titanium concentrates. For details of the Acquisition, please refer to the announcement of the Company dated 19 December 2012.

Save as disclosed above, there was no material acquisition, disposal or investment by the Group during the year ended 31 December 2013.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

Shandong Ishine, Luxing Titanium and Ishine International, which operate in the PRC and Australia respectively, are three major subsidiaries composing the Group. Almost all of the transactions of Shandong Ishine, Luxing Titanium and Ishine International are denominated and settled in their respective functional currencies, i.e. RMB and AUD respectively.

Although the Group may be exposed to foreign exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. There is no hedging by means of derivative instruments by the Group.

PLEDGE OF GROUP ASSETS

As at 31 December 2013, bank borrowings of approximately RMB130.0 million were pledged by mining rights of Shandong Ishine and Luxing Titanium with book value of approximately RMB118.0 million.

Management Discussion and Analysis

EXPLORATION COMMITMENTS AND CAPITAL COMMITMENTS

Ishine International has obligations under its exploration license to spend a minimum amount of exploration expenditures on projects. The obligations may vary from time to time subject to the approval from the relevant government authorities. Due to the nature of Ishine International's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditures may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements amended. The total tenement commitment for Ishine International as at 31 December 2013 was approximately RMB14.4 million (equivalent to approximately AUD2,653,000.0) compared to 31 December 2012 was approximately RMB16.1 million (equivalent to approximately AUD2.5 million).

As at 31 December 2013, Shandong Ishine has capital commitments of approximately RMB8.6 million (31 December 2012: nil) for properties, plant and equipment. These commitments are committed during the year ended 31 December 2013 but have not been paid.

OPERATING LEASE COMMITMENTS

The Group leases various offices and a production line under non-cancellable operating lease agreements. The operating lease commitments was approximately RMB7.1 million as at 31 December 2013 (31 December 2012: RMB2.2 million).

EMPLOYEE BENEFITS AND REMUNERATION POLICIES

As at 31 December 2013, the Group had a total of 649 employees (31 December 2012: 391). The employees of the Group were remunerated based on their experiences, qualifications, the Group's performance and the market conditions. During the year ended 31 December 2013, staff costs (including Directors' remunerations) amounted to approximately RMB34.8 million (2012: approximately RMB24.9 million).

CONTINGENT LIABILITIES

As at 31 December 2013, the Group has no material contingent liabilities.

Management Discussion and Analysis

USE OF THE IPO PROCEEDS

Purpose	Amount allocated as provided in the Prospectus *RMB million (approximately)*	Amount utilised up to the date of the Announcement (Note) *RMB million (approximately)*	Unutilised amount as at the date of the Announcement *RMB million (approximately)*	Amount to be reallocated to new purposes *RMB million (approximately)*	Amount utilised up to 31 December 2013 *RMB million (approximately)*
Purposes disclosed in the Prospectus					
Financing the expansion of mining capacity of Yangzhuang Iron Mine	62.4	36.6	25.8	–	36.6
Financing the first stage of development plan of Zhuge Shangyu Ilmenite Mine	42.7	4.1	38.6	12.6	16.7
New Purposes					
Commencement of operation of Zhuge Shangyu Ilmenite Mine	–	–	–	22.0	22.0
Commencement of the Qinjiazhuang Ilmenite Project	–	–	–	16.0	16.0
Technology improvement plan to increase annual processing capacity of Luxing Titanium Ilmenite Mine	–	–	–	3.8	3.8
General working capital	–	–	–	10.0	10.0
Total	105.1	40.7	64.4	64.4	105.1

Note: The Company made the announcement dated 7 February 2013 (the "Announcement") in relation to, among others, change in use of IPO proceeds. However, the Company also made the clarification announcement dated 3 April 2013 to clarify the amount utilised for the proposed use of the IPO proceeds as provided in the Prospectus up to the date of the Announcement, the unutilised amount as at the date of the Announcement and the amount to be allocated. For details of the clarification announcement, please refer to the announcement of the Company dated 3 April 2013.

FUTURE PLAN

The Group has conducted market research and analysed all the data comprehensively. The management will implement the following development plans in respect of the mines currently owned by the Group in 2014:

Yangzhuang Iron Mine

The Group currently possesses a mining permit of Yangzhuang Iron Mine with an approved annual mining production scale of 2.3Mt.

The Group plans to mine and process approximately 2.0Mt of iron ores and to produce approximately 0.33Mt of 65% iron concentrates in 2014.

Management Discussion and Analysis

If there is a market downturn as expected and the price of iron concentrates drops in 2014, the Group will exercise appropriate control on the production and processing, maintain storage of ores, further strengthen mining engineering work and provide proper maintenance to the mines, in order to be well-prepared for the production in a boom market. Meanwhile, the Group shall continue in comprehensive utilisation of tailings resources and improve the overall benefits of maintaining a good environment in Yangzhuang Iron Mine.

Zhuge Shangyu Ilmenite Mine

Zhuge Shangyu Ilmenite Mine currently possesses a mining permit with an approved annual mining production scale of 400,000 cubic metres (or approximately 1.2Mt).

The Group plans to mine and process approximately 0.7Mt ilmenite ores and to produce approximately 16,000 tonnes of 57% iron concentrates and approximately 18,000 tonnes of 46% titanium concentrates in 2014.

In 2013, the Group rented an iron ore processing plant, in which a new titanium processing line was installed, and is currently in operation for production. Then the Group will use the production line as the platform to strengthen the cooperation with national scientific and research institutions, in order to improve titanium processing techniques and control production cost.

If the market recovers, the Group will increase its investment in the 2.0Mt processing line and production line in Zhuge Shangyu Ilmenite Mine, which was carried out in 2013; if it is less profitable or not profitable at all, the Group will reduce its investments. The Group will first install a processing and production line by utilising idle equipment in other areas and mines, and will determine if it will process with part of coarse powders purchased from other suppliers based on profitability. Then the Group will decide to mine and process its own mines if the price recovers.

Qinjiazhuang Ilmenite Mine

In 2014, the Group will determine the investment and production activities in Qinjiazhuang Ilmenite according to the changes in market conditions in 2014 and the effectiveness and the cost of the titanium selection test conducted by Luxing Titanium.

Luxing Titanium

Luxing Titanium Mine currently possesses a mining permit with an approved annual mining production scale of 1.5Mt.

The Group plans to mine and process approximately 1.0Mt ilmenite ores and to produce 60 Kt of 57% iron concentrates and 30 Kt of 20-30% titanium concentrates in 2014.

In 2014, under a possible downturn market, the Group may suspend the processing and production of ilmenite ores depending on market changes. The Group may focus on ilmenite tailings purification technology test and studies of reducing the production cost in order to achieve new breakthroughs in cost-saving. Meanwhile, under a good market environment, the production plans of the mine for the year will not be affected.

In conclusion, during 2014, the Group will adjust the production plans in line with the market situation and protect its resources and strive for long and sustainable economic benefits of the Group, and ensure to maximise the long and sustainable interests of the investors.

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance.

In the opinion of the Directors, save for the following deviation, the Company was in compliance with all the relevant code provisions set out in the CG Code throughout the year ended 31 December 2013.

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Before the appointment of Mr. Geng Guohua ("Mr. Geng") ("Mr. Geng's Appointment"), an executive Director and the Chief Operating Officer of the Company, as the Chief Executive Officer of the Company on 14 May 2013, the Company did not appoint any chief executive. Mr. Li Yunde ("Mr. Li"), an executive Director and the Chairman of the Company, and Mr. Geng were both responsible for overseeing the general operations of the Group. The Board met regularly to consider major matters affecting the operations of the Group. Since Mr. Geng's Appointment, Mr. Li has been responsible for the management of the Board by providing leadership for the Board and has taken primary responsibility for ensuring that good corporate governance practices and procedures are established and that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole; and Mr. Geng has been responsible for the day-to-day management of the business of the Group.

Therefore, in the opinion of the Directors, the Company was in compliance with all the relevant code provisions set out in the CG Code since 14 May 2013.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standard set out in the Model Code throughout the year ended 31 December 2013.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company, and is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The management was delegated with the authority and responsibility by the Board for the daily management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

Corporate Governance Report

The Board currently consists of six Directors including three executive Directors and three independent non-executive Directors:

Executive Directors

Mr. Li Yunde *(Chairman)*
Mr. Geng Guohua *(Chief Executive Officer and Chief Operating Officer)*
Mr. Lang Weiguo

Independent non-executive Directors

Mr. Li Xiaoyang
Mr. Lin Chu Chang
Mr. Zhang Jingsheng

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors are set out on pages 60 to 64 under the section headed "Biographical Details of Directors and Senior Management".

Board Meetings

Regular Board meetings are held four times a year at approximately quarterly interval and additional meetings will be held as and when required. The four regular Board meetings for a year are planned in advance. During the regular meetings of the Board for the year, the Board reviewed the operation and financial performance of the Group, and also reviewed and approved the interim results of the Company.

During the year ended 31 December 2013, the Board held 6 meetings. All Directors were given an opportunity to include any matters in the agenda for regular Board meetings, and were also given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
Mr. Li Yunde	6/6
Mr. Geng Guohua	6/6
Mr. Lang Weiguo	4/6
Mr. Li Xiaoyang	5/6
Mr. Lin Chu Chang	5/6
Mr. Zhang Jingsheng	5/6

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials, and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Corporate Governance Report

General Meetings

During the year ended 31 December 2013, 1 general meeting of the Company was held on 14 May 2013 ("2013 AGM").

The attendance record of the Directors at the 2013 AGM were as follows:

Name of Director	Number of attendance
Mr. Li Yunde	1/1
Mr. Geng Guohua	1/1
Mr. Lang Weiguo	1/1
Mr. Li Xiaoyang	1/1
Mr. Lin Chu Chang	1/1
Mr. Zhang Jingsheng	1/1

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. Mr. Li, the Chairman of the Company and the chairman of the nomination committee of the Company ("the Nomination Committee") and Mr. Lin Chu Chang, the chairman of the audit committee of the Company (the "Audit Committee") and the remuneration committee of the Company (the "Remuneration Committee") attended the 2013 AGM to answer questions and collect views of shareholders.

Directors' Training

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

All Directors have participated in continuous professional development by way of receiving in-house briefing, taking part in training relating to the Listing Rules and corporate governance matters or attending seminars relating to their role as a director of listed issuer. Each of the Directors has provided a record of training they received for the year ended 31 December 2013 to the Company.

CHAIRMAN AND CHIEF EXECUTIVE

Before Mr. Geng's Appointment on 14 May 2013, the Company did not appoint any chief executive. Mr. Li, an executive Director and the Chairman of the Company, and Mr. Geng were both responsible for overseeing the general operations of the Group. The Board met regularly to consider major matters affecting the operations of the Group. Since Mr. Geng's Appointment, Mr. Li has been responsible for the management of the Board by providing leadership for the Board and has taken primary responsibility for ensuring that good corporate governance practices and procedures are established and that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole; and Mr. Geng has been responsible for the day-to-day management of business of the Group.

Corporate Governance Report

INDEPENDENT NON-EXECUTIVE DIRECTORS

The three independent non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of economics, science or mining industry. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

All independent non-executive Directors have been appointed for a term of two years commencing from 27 April 2012 (the "Listing Date") and are subject to retirement by rotation in accordance with the Articles of Association of the Company (the "Articles").

NOMINATION COMMITTEE

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the ore industry and/or other professional area.

The Company established the Nomination Committee on 9 April 2012 with written terms of reference and was revised on 28 August 2013, which was aligned with the CG Code. The terms of reference of the Nomination Committee is currently made available on the Stock Exchange's website and the Company's website.

The Nomination Committee consists of one executive Director, namely Mr. Li Yunde (as chairman), and two independent non-executive Directors, namely Mr. Li Xiaoyang and Mr. Zhang Jingsheng.

The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Group's strategy; to identifying qualified individuals to become members of the Board; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive officer.

The Board adopted on 28 August 2013 a board diversity policy (the "Board Diversity Policy") and delegated certain duties under the Board Diversity Policy to the Nomination Committee. The Board recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

During the year ended 31 December 2013, the Nomination Committee held a meeting to review the board composition, to assess the independence of the independent non-executive Directors and to make recommendation on the re-election of Directors.

Corporate Governance Report

The members and attendance of the Nomination Committee meeting are as follows:

Name of Director	Number of attendance
Mr. Li Yunde *(chairman)*	1/1
Mr. Li Xiaoyang	1/1
Mr. Zhang Jingsheng	1/1

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 9 April 2012 with written terms of reference, which was aligned with the CG Code. The terms of reference of the Remuneration Committee is currently made available on the Stock Exchange's website and the Company's website.

The Remuneration Committee consists of one executive Director, namely Mr. Li Yunde, and two independent non-executive Directors, namely Mr. Lin Chu Chang (as chairman) and Mr. Zhang Jingsheng.

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The model of making recommendations to the Board on remuneration packages of individual executive Directors and the members of senior management is adopted.

During the year ended 31 December 2013, the Remuneration Committee held 2 meetings to review the remuneration of Directors, senior management and management.

The members and attendance of the Remuneration Committee meetings are as follows:

Name of Director	Number of attendance
Mr. Lin Chu Chang *(chairman)*	2/2
Mr. Li Yunde	2/2
Mr. Zhang Jingsheng	2/2

The Company has adopted a share option scheme on 9 April 2012. The purpose of the share option scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), Directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group. Details of the share option scheme are set out in the Report of the Directors.

The emolument payable to the Directors will depend on their respective contractual terms under employment contracts, if any, and will be fixed by the Board after taking into account the recommendation from the Remuneration Committee, the performance of the Group and the prevailing marketing conditions. Details of the Directors' remuneration for the year ended 31 December 2013 are set out in note 32 to the consolidated financial statements.

Corporate Governance Report

AUDIT COMMITTEE

The Company established the Audit Committee on 9 April 2012 with written terms of reference, which was aligned with the CG Code. The terms of reference of the Audit Committee is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Lin Chu Chang (as chairman), Mr. Li Xiaoyang and Mr. Zhang Jingsheng.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system (including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget) and the internal control procedures.

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2013, the Audit Committee held 2 meetings.

The members and attendance of the Audit Committee Meetings are as follows:

Name of Director	Number of attendance
Mr. Lin Chu Chang *(chairman)*	2/2
Mr. Li Xiaoyang	2/2
Mr. Zhang Jingsheng	2/2

During the year ended 31 December 2013, the Audit Committee reviewed, among others, the 2012 annual results and the 2013 interim results of the Group. The Audit Committee was in the opinion that the preparation of such accountant's report and results complied with the applicable accounting standards and the Listing Rules.

The Audit Committee noted the existing internal control system of the Group and also noted that review of the same shall be carried out annually.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance functions are carried out by the Board pursuant to the written terms of reference adopted by the Board in compliance with the CG Code.

The corporate governance functions currently performed by the Board are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code and other legal or regulatory requirements; to oversee the Company's orientation program for new Director; to review and monitor the training and continuous professional development of Directors and senior management; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's disclosure in the Corporate Governance Report.

Corporate Governance Report

During the year ended 31 December 2013, the Board has reviewed the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management as well as the Company's compliance with the CG Code.

AUDITORS' REMUNERATION

For the year ended 31 December 2013, the remuneration paid/payable to the Company's auditor, PricewaterhouseCoopers, is as follows:

	RMB'000
Services rendered	
Audit services	3,100
Non-audit services	–
	3,100

COMPANY SECRETARY

The Company engaged an external professional company secretarial services provider, Uni-1 Corporate Services Limited ("Uni-1"), to provide compliance and full range of company secretarial services to the Group in order to assist the Group to cope with the changing regulatory environment.

Ms. Chan Yuen Ying, Stella ("Ms. Chan"), the representative of Uni-1, was appointed as the named Company Secretary of the Company.

Ms. Chan Wing Ki Michele, the Financial Controller of the Company, is the primary corporate contact person at the Company for the Company Secretary.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Chan had taken no less than 15 hours of relevant professional training for the year ended 31 December 2013.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Corporate Governance Report

Shareholders to convene an extraordinary general meeting

Pursuant to Article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner.

Putting enquiries by shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals by shareholders at shareholders' meetings

Shareholders of the Company are requested to follow Article 64 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to Article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company. The period for lodgement of the notice will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of 2014 AGM will be voted by poll.

Corporate Governance Report

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders.

Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;

- Publication of announcements on the annual and interim results on the Stock Exchange's website and the Company's website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Constitutional Documents

There had been no changes in the constitutional documents of the Company during the year ended 31 December 2013.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for that year. In preparing the consolidated financial statements for the year ended 31 December 2013, the Board has selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

The statement by the auditor of the Company about its responsibilities for the financial statements is set out in the independent auditor's report contained in this annual report.

Corporate Governance Report

INTERNAL CONTROL

Management had implemented a system of internal control to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

During the year ended 31 December 2013, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.

SENIOR MANAGEMENT'S REMUNERATION

Senior management's remuneration payment of the Group in the year ended 31 December 2013 falls within the following bands:

	Number of Individuals
HKD500,000 or below	–
HKD500,001 to HKD1,000,000	3
HKD1,000,001 to HKD1,500,000	1

Report of the Directors

The Directors of the Company are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 66 to 126.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: HKD0.004).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the Shareholders to attend and vote at the annual general meeting of the Company ("2014 AGM") to be held on Friday, 30 May 2014, the register of members of the Company will be closed from Wednesday, 28 May 2014 to Friday, 30 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2014 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 27 May 2014.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2013 are set out in note 17 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2013.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB86,812,000 (2012: RMB99,334,000).

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Li Yunde *(Chairman)*
Mr. Geng Guohua *(Chief Executive Officer and Chief Operating Officer)*
Mr. Lang Weiguo

Independent non-executive Directors

Mr. Li Xiaoyang
Mr. Lin Chu Chang
Mr. Zhang Jingsheng

In accordance with Article 108 of the Articles, Mr. Lang Weiguo and Mr. Lin Chu Chang shall retire at the 2014 AGM by rotation and, being eligible, offer themselves for re-election.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

SHARE OPTION SCHEME

To attract and retain the best available personnel, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 9 April 2012 ("Adoption Date") whereby the Board was authorised, at its absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 27 April 2012.

Report of the Directors

The principal terms of the Scheme are summarised as follows:

(1) The limit on the total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme(s) of any member of the Group must not exceed 10% of the nominal amount of all the issued share capital of the Company as at the Listing Date, i.e. 27 April 2012 (which is 72,087,158 shares) unless Shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares in issue from time to time.

(2) The total number of shares issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted to any Participant in any 12-month period shall not exceed 1% of the issued shares as of the proposed grant date.

(3) The subscription price for the shares under the options to be granted under the Scheme will be a price determined by the Board at the time of grant of the options, and shall be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the options, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant of the option.

(4) An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(5) HK$1.00 is payable by the participant who accepts the grant of an option in accordance with the terms of the Scheme on acceptance of the grant of an option.

(6) The Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the shareholders of the Company in general meeting.

The Company has not granted any option since adoption of the Scheme. Other details of the Scheme are set out in the prospectus of the Company dated 17 April 2012 (the "Prospectus").

SHARE OPTION OF ISHINE INTERNATIONAL RESOURCES LIMITED ("ISHINE INTERNATIONAL")

As at 31 December 2013, Ishine International, a wholly-owned subsidiary of the Company, has a total of 6,275,000 options to acquire shares on issue. If these options are exercised by their holders, Ishine International will be obliged to issue up to 6,275,000 new shares.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2013 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service agreement with the Company on 9 April 2012 for an initial fixed term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by the Board with reference to the recommendations of the Remuneration Committee.

Each of the independent non-executive Directors entered into a service agreement with the Company on 9 April 2012 for an initial fixed term of two years commencing from the Listing Date unless terminated by not less than three months' prior notice in writing served by either party on the other.

None of the Directors proposed for re-election at the 2014 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as those disclosed in the section headed "Connected Transactions", none of the Directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2013, nor any contract of significance has been entered into during the year ended 31 December 2013 between the Company or any of its subsidiaries and the controlling shareholders of the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

COMPETING INTERESTS

None of the Directors or any of their respective associates had any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

The Board has established a review committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review on an annual basis of the non-competition undertaking given by Mr. Li Yunde and Hongfa Holdings Limited (collectively, the "Covenantors") in the deeds of non-competition (the "Deeds of Non-competition") entered into by, among others, the Covenantors dated 9 April 2012. An extract of the material terms of the Deeds of Non-competition had been set out in the Prospectus. The Covenantors confirmed that (a) they have provided all information necessary for the enforcement of the Deeds of Non-competition as requested by the Committee from time to time; and (b) from the effective date of the Deeds of Non-competition, i.e. 9 April 2012 and up to 31 December 2013, they had complied with the Deeds of Non-competition. The Committee also confirmed that they were not aware of any non-compliance with the Deeds of Non-competition by the Covenantors during the same period.

RETIREMENT SCHEMES

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC and a Mandatory Provident Fund Scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 2.17 to the consolidated financial statements in this annual report.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2013, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO) or pursuant to the Model Code, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, are set out below:

Interests or short positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity/ Nature of Interest	Long Position/ Short Position	Number of Ordinary Shares held	Approximate percentage of interest
Mr. Li Yunde	Interest of controlled corporation	Long position	407,128,532 *(Note 1)*	56.48%
Mr. Lang Weiguo	Interest of controlled corporation	Long position	133,170,000 *(Note 2)*	18.47%

Interests or short positions in shares, underlying shares and debentures of associated corporations

Name of Director	Name of associated corporation	Capacity/ Nature of Interest	Number of Ordinary Shares held	Approximate percentage of interest
Mr. Li Yunde	Hongfa Holdings Limited	Beneficial owner	1 *(Note 1)*	100%
Mr. Li Yunde	Ishine International Resources Limited	Beneficial owner	10,000,000	11.45%
Mr. Li Yunde	Linyi Luxing Titanium Co., Ltd	Interest of controlled corporation	1,100,000 *(Note 3)*	5.00%

Notes:

1 Mr. Li Yunde ("Mr. Li") beneficially holds the entire issued share capital of Hongfa Holdings Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability, which in turn, beneficially holds 407,128,532 shares of the Company. For the purposes of the SFO, Mr. Li is deemed or taken to be interested in all the shares held by Hongfa Holdings Limited. Mr. Li is the sole director of Hongfa Holdings Limited.

2 Mr. Lang Weiguo ("Mr. Lang") beneficially holds the entire issued share capital of Novi Holdings Limited and All Five Capital Ltd, both companies are incorporated in the BVI with limited liability, which in turn, beneficially hold 106,530,000 shares and 26,640,000 shares of the Company, respectively. For the purpose of the SFO, Mr. Lang is deemed or taken to be interested in all the shares held by Novi Holdings Limited and All Five Capital Ltd.

3 Mr. Li and his spouse, Ms. Zhang Limei, together held the entire equity interest of Linyi Run Xing Investment Company Limited, which in turn held 1,100,000 shares in Linyi Luxing Titanium Co., Ltd. For the purposes of the SFO, Mr. Li is deemed or taken to be interested in all the shares held by Linyi Run Xing Investment Company Limited.

Report of the Directors

Save as disclosed above, as at 31 December 2013, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES

As at 31 December 2013, so far as is known to any Director, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name of Shareholder	Nature of Interest	Long Position/ Short Position	Number of Ordinary Shares held	Approximate percentage of interest
Hongfa Holdings Limited	Beneficial owner	Long position	407,128,532	56.48%
Ms. Zhang Limei	Interest of spouse	Long position	407,128,532 *(Note 1)*	56.48%
Novi Holdings Limited	Beneficial owner	Long position	106,400,000	14.76%
Jiuding Callisto Limited	Beneficial owner	Long position	59,111,052 *(Note 2)*	8.20%

Notes:

(1) Ms. Zhang Limei ("Ms. Zhang") is the spouse of Mr. Li. For the purpose of SFO, Ms. Zhang is deemed or taken to be interested in all the shares in which Mr. Li is interested.

(2) Jiuding China Growth Fund, L.P. beneficially holds the entire issued share capital of Jiuding Callisto Limited ("Jiuding Callisto") which in turn, beneficially holds 59,111,052 shares of the Company. For the purpose of SFO, Jiuding China Growth Fund, L.P. is deemed or taken to be interested in all the shares held by Jiuding Callisto. Jiuding China GP Limited is the general partner of Jiuding China Growth Fund, L. P. For the purpose of SFO, Jiuding China GP Limited is deemed or taken to be interested in all the shares in which Jiuding China Growth Fund, L. P. is interested.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2013.

Report of the Directors

CONNECTED TRANSACTIONS

Trademark License Agreement

On 14 February 2012, Shandong Ishine Mining Industry Co. Ltd. (山東興盛礦業有限責任公司) ("Shandong Ishine"), an indirectly wholly-owned subsidiary of the Company, and Mr. Li Yunde ("Mr. Li"), one of the controlling shareholders, the Chairman and an executive Director of the Company, entered into a trademark license agreement (the "Trademark License Agreement") pursuant to which Mr. Li agreed to grant a license to Shandong Ishine to use the registered trademark on an exclusive, sole and royalty-free basis for a term of 10 years commencing from the date of signing of the Trademark License Agreement at nil consideration. Upon expiry of the Trademark License Agreement, Shandong Ishine has the pre-emption to require Mr. Li to renew the Trademark License Agreement. According to the Trademark License Agreement, Shandong Ishine has options to acquire the trademark rights of the registered trademark and all the relevant rights attached thereto from Mr. Li at any time during the term of the Trademark License Agreement for a nominal consideration of RMB10. The transaction under the Trademark License Agreement constitutes an exempted continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

Provision of Financial Assistance

(1) On 25 June 2012, Shanghai Pudong Development Bank, Linyi branch granted a loan in the principal amount of RMB40.0 million to Shandong Ishine, pursuant to which Mr. Li acted as guarantor to secure the said loan. The loan was partly repaid in an amount of RMB20.0 million on 7 August 2012, and the remaining balance has been repaid on 25 June 2013. (2) On 12 July 2013, Linyi Luxing Titanium obtained a loan of RMB20.0 million from Rural Commercial Bank of Shandong Yishui Company Limited, which was guaranteed by Shandong Ishine, Linyi Runxing Investment Company Limited and Mr. Li, and was to be due for repayment on 11 July 2014. The provision of guarantee by Mr. Li constitutes financial assistance to the Company which was for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance, which is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. The above transactions constitute connected transactions, which are exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

Key Management Compensation

The material related party transactions in relation to the key management compensation remuneration, which is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules as disclosed in Note 32 to the consolidated financial statements in this annual report are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.31(6) of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2013, approximately 73.0% of the Group's turnover and approximately 47.0% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers, respectively. Approximately 37.7% of the Group's turnover and approximately 14.1% of the Group's purchases were attributable to the Group's largest customer and the Group's largest supplier, respectively. To the best knowledge of the Directors, none of the Directors or chief executive of the Company or any shareholder owning more than 5% of the Company's share capital or their respective associates, had any interest in the Group's five largest customers or five largest suppliers.

Report of the Directors

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2013.

AUDIT COMMITTEE

The Company established the Audit Committee on 9 April 2012 with written terms of reference in compliance with the CG Code, which currently comprises three independent non-executive Directors, namely Mr. Lin Chu Chang (as chairman), Mr. Li Xiaoyang and Mr. Zhang Jingsheng. The Audit Committee is mainly responsible for the relationship with the Company's auditor, review of the Company's financial information and monitoring of the Company's financial reporting system and internal control procedures. The Audit Committee has reviewed this annual report and the audited annual financial statements for the year ended 31 December 2013 before such documents were tabled for the Board's review and approval, and is of the opinion that such documents complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 42 to 51 of this annual report.

AUDITORS

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 December 2013. The Company has not changed its external auditor during the past three years. A resolution will be submitted to the 2014 AGM to re-appoint PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
China Zhongsheng Resources Holdings Limited

Li Yunde
Chairman

Hong Kong, 28 March 2014

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Yunde ("Mr. Li")

Mr. Li, aged 47, was appointed as a Director on 8 February 2011 and redesignated as an executive Director of the Company on 9 April 2012. Mr. Li is also the Chairman of the Board, and a director of all of the subsidiaries of the Group, except Fortuneshine Investment Ltd. and Shine Mining Investment Limited. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee. He is primarily responsible for the Group's overall strategic planning and business development. Mr. Li has over 20 years of experience in iron ore exploration, mining and processing in Shandong Province, the PRC. Mr. Li graduated from Shandong University (山東大學) in July 2002, majoring in Marketing (市場行銷). He has also completed the China Private Enterprise Entrepreneur Training (中國民營企業總裁研修) held by Tsinghua University (清華大學) in March 2005. He has been the Chairman of the Board of the Association of Industry and Commerce of Linyi City, Yishui County, Shandong Province (沂水縣工商業聯合會). Mr. Li was awarded the "Outstanding Member of the National People's Congress of Linyi City (臨沂市優秀人大代表)" in February 2007 by the Standing Committee of the National People's Congress of Linyi City and the "Model Worker of Shandong Province (山東省勞動模範)" in April 2008 by the People's Government of Shandong Province. Since November 2012, Mr. Li has been the Vice-President of China Mining Association (中國礦業聯合會) Australian Branch, and was elected as the Representative of the National People's Congress of Shandong Province in January 2013. He has been the Standing Director of China Federation of Industry & Commerce (全國工商業聯合會) Metallurgy Branch.

Mr. Geng Guohua ("Mr. Geng")

Mr. Geng, aged 44, was appointed as the Chief Executive Officer of the Company on 14 May 2013, and was appointed as an executive Director and the Chief Operating Officer on 9 April 2012. He has been the chief operating officer of Shandong Ishine Mining Industry Co., Ltd. (山東興盛礦業有限責任公司) ("Shandong Ishine") since 2007, an indirect wholly-owned subsidiary of the Company, and a director of Shandong Ishine since November 2010 during which he has acquired relevant experience in the operation of iron and ilmenite mines and participated in trainings relating to mining, production, management and geology organised by Tsinghua University and University of Toronto. He is primarily responsible for the Group's overall operation. Mr. Geng began his career in 1989 and worked at different managerial levels in Shandong Liaherd Chemical Industry Co., Ltd. (山東聯合化工股有限公司). From 1999 to 2003, he worked as a management person of Shandong Fuyuan Leather Group Ltd. (山東富源皮革集團有限公司) and was responsible for its technical services, production and sales management. He had been the deputy general manager in charge of production of Beijing Huiyuan Juice Group Limited (北京匯源果汁集團有限公司) (currently known as China Huiyuan Juice Group Limited (中國匯源果汁集團有限公司), a company listed on the Stock Exchange (stock code: 1886)) from 2003 to 2007 and was responsible for its general management. Mr. Geng graduated at Correspondence Institute of the Party School of Central Committee of Communist Party of China (中共中央黨校函授學院) majoring in Law in December 2001. Mr. Geng was asccredited as a Human Resources Developments and Project Technician (Enterprise Human Resource Management) (人力資源開發管理工程技術人員(企業人力資源管理人員)) in October 2003 by the Occupational Skill Testing Authority (職業技能鑒定(指導)中心) of Shandong Province, the PRC.

Biographical Details of Directors and Senior Management

Mr. Lang Weiguo ("Mr. Lang")

Mr. Lang, aged 55, was appointed as an executive Director on 9 April 2012. He joined the Group in 2010 and has been the vice chairman of the board of directors of Shandong Ishine since November 2010. He is primarily responsible for the Group's business development and investment. Mr. Lang is also a director of Fortuneshine Investment Ltd. and Shine Mining Investment Limited, both of which are the subsidiaries of the Group. He received a bachelor degree in Engineering from Agriculture University of Heilongjiang (黑龍江八一農墾大學) in July 1982 and further obtained his master's and doctorate degrees in Engineering from University of Saskatchewan in Canada in May 1989 and May 1993, respectively. From 1999 to 2004, he had been the president and a director of Q-Net Technologies Co., Ltd., a company which was quoted on the Over-The-Counter Bulletin Board Trading System ("OTCBB") (symbol: QNTI) in the United States of America, responsible for its general management and business development. From 2004 to 2005, he became the chairman of the board of directors of Savoy Resources Co., Ltd., a company quoted on the National Association of Securities Dealers Over-The-Counter Bulletin Board (symbol: SVYR) in the United States of America, responsible for its business development. From 2003 to 2008, he acted as a director of Vendtek Systems Inc., a company listed on Toronto Stock Exchange Venture (symbol: VSI) in Canada, responsible for its business development. From 2007 to 2011, Mr. Lang had also been a director of Zhongrun (Tianjin) Mining Development Co., Ltd (中潤(天津)礦業開發有限公司), a PRC company principally engaged in the development and exploration of metal mines and resources, and relevant consultancy services, responsible for its business development.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Xiaoyang ("Mr. Li XY")

Mr. Li XY, aged 58, was appointed as an independent non-executive Director on 9 April 2012 for a term of two years. He is a member of each of the Audit Committee and the Nomination Committee. Mr. Li XY graduated from Central South Institute of Mining and Metallurgy (中南礦冶學院) (currently known as Central South University (中南大學)) in September 1985, majoring in Metallurgical Analytical Chemistry (冶金分析化學). He also obtained a master's degree of Regional Economics Management (區域經濟管理) granted by Beijing Normal University (北京師範大學) in December 2002. From 1980 to 2000, he worked in Kunming Institute of Metallurgy (昆明冶金研究院) and was appointed as an associate engineer, and a senior engineer in 1986 and 1996, respectively, focusing on the research and technical development of metallurgy.

Biographical Details of Directors and Senior Management

Mr. Lin Chu Chang ("Mr. Lin")

Mr. Lin, aged 44, was appointed as an independent non-executive Director on 9 April 2012 for a term of two years. He is the chairman of the Audit Committee and the Remuneration Committee. He graduated from The University of Hong Kong (香港大學) in November 1991 with a Bachelor of Science degree. Mr. Lin has previously held senior positions with various companies, including companies listed on the Stock Exchange, and has gained extensive experience in reviewing and analysing financial statements of public and private companies. Between 1994 and 1996, he was a China business analyst of ChinaVest Limited, a venture capital firm, responsible for conducting research and analysis for the company. From 1997 to 2001, Mr. Lin was a vice president of the research department of Merrill Lynch (Asia-Pacific Region), responsible for analyzing various listed companies. He was the chief financial officer of China Resources Land Limited, a company listed on the Stock Exchange (stock code: 01109), from 2002 to 2006 and Longfor Properties Co. Ltd., a company listed on the Stock Exchange (stock code: 00960), from 2006 to 2010, responsible for treasury and financial reporting to the Board of the companies. Mr. Lin was an executive director of Longfor Properties Co. Ltd. between 2008 and 2010, responsible for its financial management and investor relationships. He has also been an independent non-executive director of Shenzhen Expressway Company Limited, a company listed on the Stock Exchange (stock code: 00548) since March 2012.

Mr. Zhang Jingsheng ("Mr. Zhang")

Mr. Zhang, aged 68, was appointed as an independent non-executive Director on 9 April 2012 for a term of two years. He is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. He has been an independent director of Shandong Ishine since 2008. He worked as an engineer, manager, deputy dean and dean of Changsha Research Institute of Mining and Metallurgy (長沙礦冶研究院) currently known as the Changsha Research Institute of Mining and Metallurgy Limited (長沙礦冶研究院有限公司) from 1981 to 2007, and was primarily responsible for human resources and financials. Mr. Zhang has been awarded various prizes in relation to ore dressing which include (among others):

(1) the second prize of technology advancement regarding "Research on Reasonable Ore Processing Process for Lean Hematite in Qidashan District (齊大山貧紅鐵礦合理選礦工藝流程)" awarded by the Metallurgy Ministry in December 1992;

(2) the third prize of technology advancement regarding "Research on the Techniques for Ocean Polymetallic Nodules Special Ore Processing (大洋多金屬結核特殊選礦工藝研究)" awarded by the Metallurgy Ministry in December 1996;

(3) the first prize of science and technology regarding "Research on Grading of Controlling Iron Ore Swirler, Spinning Clay, and Anti-flotation Process in East Anshan District (東鞍山鐵礦石旋流器控制分級-脫泥-反浮選流程研究)" awarded by the Metallurgy Ministry in 1998;

(4) "95" outstanding individual on national scientific and technological achievement and advancement ("九五"國家重點科技攻關計劃先進個人) awarded by the Scientific and Technological Ministry, Ministry of Economic Trade, Finance Ministry, and National Planning Ministry of the PRC in 2001;

Biographical Details of Directors and Senior Management

(5) the first prize for science and technology progress regarding "Research on Equipment and Technology for Ore Processing Process for Panzhihua Micro-fine Ilmenite (攀枝花微細粒級鈦鐵礦選礦工程技術及選鈦裝備研究)" awarded by the People's Government of Sichuan in 2002; and

(6) the special award of Metallurgy technology awarded by the Metallurgy Ministry in October 2003 regarding "Research on Technical Use of New Techniques, New Medicine and New Equipment for Ore Processing of Lean Hematite (Magnetic) in Anshan District (鞍山貧赤(磁)鐵礦選礦新工藝、新藥劑、新設備研究及工藝應用)".

SENIOR MANAGEMENT

Mr. Liu Quan Xuan (劉全軒), aged 71, is the Chief Ore Dressing Technician of the Group. From 1974 to 1997, he had been the head of the iron ore dressing factory of Shandong Hanwang Iron Ore (山東韓旺鐵礦), currently known as Laigang Group Lunan Mining Limited (萊鋼集團魯南礦業有限公司), and was responsible for technology and corporate management. Mr. Liu is a senior engineer for mining separation accredited by Senior Adjudicating Council of the Professional Metallurgy Technology of Shandong (山東省冶金工程技術職務高級評審委員會) in October 1993. In December 1991 and March 1992, Mr. Liu was awarded the first prize of technology achievement and the third prize of technology achievement granted by Shandong Metallurgical Industry Corporation (山東省冶金工業總公司), respectively. In 2001, he was employed by Shandong Ishine (formerly known as Yishui Ishine Mining Industry Co. Ltd. (沂水縣興盛礦業有限責任公司)), and was responsible for the technology and product quality improvement for Yangzhuang Iron Mine. From 2004 to 2005, he was employed by Huludao Hongyue Mine Exploration and Design Limited (葫蘆島宏躍礦山勘察設計有限責任公司) for design of the mining separation factory of Madao Iron Mine (馬道鐵礦). Mr. Liu joined the Group in 2005, and from 2005 to 2007, Mr. Liu had been the chief engineer of Shandong Ishine for mining separation. In 2008, he was appointed as the chief engineer of Shandong Huate Magnet Technology Co., Ltd. (山東華特磁電科技股份有限公司) and was responsible for sales staff training and equipment planning. In 2009, Mr. Liu worked as the chief engineer in Shandong Ishine. In 2010, he was appointed as the chief mining separation technician of Shandong Ishine.

Mr. Huang Zhaobo (黃召波), aged 50, is the Deputy Business Head of the Group. Mr. Huang joined Shandong Ishine in 2001 as the sales manager and in 2003, he was appointed as the business manager of Shandong Ishine. In 2005, he had been the deputy head and the business manager of Shandong Ishine. In 2008, Mr. Huang had been the deputy head of Shandong Ishine and in 2010, he was appointed as the deputy head in charge of delegating business of Shandong Ishine. In March 2010, he completed the research class for senior managers (高級經理人研修班) of the Beijing University.

Mr. Gao Zefu (高澤福), aged 60, is the Deputy Production Head of the Group and head of Yangzhuang Iron Mine. He had been the supervisor of the Yinan Gold Mine of Shandong Gold Group (山東黃金集團沂南金礦), currently known as Shandong Gold Mining Industry (Yinan) Ltd (山東黃金礦業(沂南)有限公司) from 1991 to 1994, and had served as the deputy head from 1994 to 2007, responsible for the supervision of operation. Since 2007, Mr. Gao has been the deputy head of Shandong Ishine and head of Yangzhuang Iron Mine and was responsible for overall management of the Yangzhuang Iron Mine.

Biographical Details of Directors and Senior Management

Ms. Chan Wing Ki Michele (陳詠琪), aged 33, was appointed as the Financial Controller of the Company on 9 April 2012. Ms. Chan graduated from Macquarie University, Sydney, Australia with Bachelor of Commerce (Accounting). She also obtained a Postgraduate Diploma, majoring in Commerce, granted by the University of Sydney, Sydney, Australia in October 2006. Ms. Chan was admitted as a Certified Practising Accountant of the Certified Practising Accountants, Australia in December 2009.

Ms. Chan began her career in Dell Australia Ltd as an accountant and was primarily responsible for preparing daily and monthly reports of assets, liabilities and inventories from 2006 to 2007. From 2007 to 2008, she was appointed as an assistant accountant in BEA System Pty Ltd, and was responsible for accounts receivable and payable function as well as supporting the senior accountant and finance function. From 2008 to 2010, she was appointed as a fund accountant in ING Real Estate Fund Investment Management Australia (INGREFIMA), and was primarily responsible for controlling and adjusting daily reports, and preparing cash, asset and liability forecasts. In 2010, she was appointed as a staff accountant of the Carlyle Management Hong Kong Limited and was responsible for assisting the establishment of a branch office in Australia and handling accounting duties for the branch offices located in Australia, Singapore and Korea.

COMPANY SECRETARY

Ms. Chan Yuen Ying, Stella, aged 42, was appointed as the company secretary of the Company on 9 April 2012. Ms. Chan is a fellow member of the Institute of Chartered Secretaries and Administrators and a fellow member of the Hong Kong Institute of Chartered Secretaries. She is also a member of the Hong Kong Institute of Directors. Ms. Chan has over 15 years' experience in handling listed company secretarial matters.

Independent Auditor's Report

To the shareholders of China Zhongsheng Resources Holdings Limited
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Zhongsheng Resources Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 66 to 126, which comprise the consolidated and company balance sheets as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2014

Balance Sheets

(Amounts expressed in thousands of RMB)

		As at 31 December			
		The Group		The Company	
	Note	2013	2012	2013	2012
ASSETS					
Non-current assets					
Property, plant and equipment	*7*	372,452	213,490	30	47
Intangible assets	*8*	142,218	27,585	–	–
Interest in subsidiaries	*9*	–	–	459,527	459,828
Available-for-sale financial assets	*10*	1,442	2,441	–	–
Deferred income tax assets	*11*	5,227	1,973	–	–
		521,339	245,489	459,557	459,875
Current assets					
Inventories	*12*	35,604	16,272	–	–
Trade receivables	*13*	190,447	271,716	–	–
Notes receivables	*14*	206,188	261,739	–	–
Prepayments and other receivables	*15*	75,702	182,705	3,521	1,555
Cash and cash equivalents	*16*	64,089	82,920	18,362	32,946
Restricted bank deposits	*16*	68,476	798	–	–
		640,506	816,150	21,883	34,501
Total assets		1,161,845	1,061,639	481,440	494,376
EQUITY					
Equity attributable to owners of the Company					
Share capital and share premium	*17*	382,863	385,160	382,863	385,160
Reserves	*18*	72,639	18,662	119,549	119,549
Retained earnings/(Accumulated losses)		240,410	184,186	(32,737)	(20,215)
		695,912	588,008	469,675	484,494
Non-controlling interests		6,291	4,568	–	–
Total equity		702,203	592,576	469,675	484,494

Balance Sheets

(Amounts expressed in thousands of RMB)

		As at 31 December			
		The Group		The Company	
	Note	2013	2012	2013	2012
LIABILITIES					
Non-current liabilities					
Borrowings	*22*	–	100,000	–	–
Provision for close down, restoration and environmental costs	*23*	16,612	6,551	–	–
Deferred income tax liabilities	*11*	32,614	3,635	–	–
		49,226	110,186	–	–
Current liabilities					
Borrowings	*22*	210,000	249,900	–	–
Trade payables	*19*	73,749	59,936	–	–
Notes payables	*20*	14,786	1,180	–	–
Accruals and other payables	*21*	94,622	42,803	9,468	9,882
Dividend payables		2,297	–	2,297	–
Current income tax liabilities		14,962	5,058	–	–
		410,416	358,877	11,765	9,882
Total liabilities		459,642	469,063	11,765	9,882
Total equity and liabilities		1,161,845	1,061,639	481,440	494,376
Net current assets		230,090	457,273	10,118	24,619
Total assets less current liabilities		751,429	702,762	469,675	484,494

The notes on pages 71 to 126 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 28 March 2014, and were signed on its behalf.

Executive Director

Executive Director

Consolidated Statement of Comprehensive Income

(Amounts expressed in thousands of RMB)

	Note	For the year ended 31 December 2013	2012
Revenue	24	667,904	871,521
Cost of sales	25	(524,245)	(718,715)
Gross profit		143,659	152,806
Distribution expenses	25	(12,521)	(10,973)
Administrative expenses	25	(47,960)	(49,044)
Other gains – net	27	79,494	7,448
Operating profit		162,672	100,237
Finance income	28	291	1,463
Finance expenses	28	(30,229)	(35,190)
Finance expenses – net		(29,938)	(33,727)
Profit before income tax		132,734	66,510
Income tax expense	29	(23,627)	(24,113)
Profit for the year		109,107	42,397
Profit attributable to:			
Owners of the Company		111,214	46,904
Non-controlling interests		(2,107)	(4,507)
		109,107	42,397
Other comprehensive income			
Items that may be reclassified to profit or loss			
Change in value on available-for-sale financial assets		90	1,064
Currency translation differences		(2,277)	591
Total comprehensive income for the year		106,920	44,052
Attributable to:			
Owners of the Company		109,694	48,046
Non-controlling interests		(2,774)	(3,994)
		106,920	44,052
Earnings per share for profit attributable to owners (Expressed in RMB per share)			
Basic and diluted	30	0.15	0.07
Dividends	31	2,297	2,304

The notes on pages 71 to 126 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(Amounts expressed in thousands of RMB)

	Note	Attributable to Owners of the Company					
		Share capital and share premium (Note 17)	Reserves (Note 18)	Retained earnings	Subtotal	Non-controlling interests	Total equity
As at 31 December 2012		385,160	18,662	184,186	588,008	4,568	592,576
Comprehensive income							
Acquisition of a subsidiary	*6*	–	–	–	–	4,275	4,275
Profit for the year		–	–	111,214	111,214	(2,107)	109,107
Other comprehensive income							
Currency translation differences		–	(1,583)	–	(1,583)	(694)	(2,277)
Available-for-sale financial assets	*10*	–	63	–	63	27	90
Transaction with owners							
Appropriations		–	54,990	(54,990)	–	–	–
Dividends		(2,297)	–	–	(2,297)	–	(2,297)
Share-based payments		–	507	–	507	222	729
As at 31 December 2013		382,863	72,639	240,410	695,912	6,291	702,203
As at 31 December 2011		274,769	(6,956)	161,590	429,403	8,490	437,893
Issuance of new shares	*17*	110,391	–	–	110,391	–	110,391
Comprehensive income							
Profit for the year		–	–	46,904	46,904	(4,507)	42,397
Other comprehensive income							
Currency translation differences		–	413	–	413	178	591
Available-for-sale financial assets	*10*	–	729	–	729	335	1,064
Transaction with owners							
Appropriations		–	24,308	(24,308)	–	–	–
Share-based payments		–	168	–	168	72	240
As at 31 December 2012		385,160	18,662	184,186	588,008	4,568	592,576

The notes on pages 71 to 126 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(Amounts expressed in thousands of RMB)

	Note	For the year ended 31 December 2013	2012
Cash flows from operating activities			
Cash generated from operations	34	446,855	50,644
Interest paid		(24,628)	(29,545)
Income tax paid		(15,097)	(39,772)
Interest received		291	1,463
Net cash generated from/(used in) operating activities		407,421	(17,210)
Cash flows from investing activities			
Restricted bank deposits	16	(68,476)	–
Purchase of property, plant and equipment ("PPE") and intangible assets		(46,159)	(37,000)
Acquisition of a subsidiary, net of cash acquired	6	(20,557)	–
Proceeds from disposal of PPE		30	–
Net cash used in investing activities		(135,162)	(37,000)
Cash flows from financing activities			
Repayments of borrowings		(433,850)	(520,620)
Proceeds from borrowings		143,950	352,900
Issuance of new ordinary shares		–	129,137
Payment for initial public offering expenses		–	(27,182)
Net cash used in financing activities		(289,900)	(65,765)
Net decrease in cash and cash equivalents		(17,641)	(119,975)
Cash and cash equivalents at beginning of the year		82,920	202,586
Exchange (losses)/gains on cash and cash equivalents		(1,190)	309
Cash and cash equivalents at end of the year		64,089	82,920

The notes on pages 71 to 126 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

1. GENERAL INFORMATION

China Zhongsheng Resources Holdings Limited (the "Company") was incorporated in the Cayman Islands on 8 February 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively the "Group") are principally engaged in iron ore mining and processing, ilmenite ore mining and processing, sales of iron concentrate and titanium concentrate in the People's Republic of China (the "PRC") and exploration of metal reserves in Australia. The Company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 27 April 2012.

The directors considered Hongfa Holdings Limited ("Hongfa Holdings"), a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Li Yunde (the "Controlling Shareholder"), to be the ultimate holding company.

In January 2013, Shandong Ishine Mining Industry Co., Ltd. ("Shandong Ishine"), an indirectly wholly-owned subsidiary of the Company, acquired 95% of the equity interest of Linyi Luxing Titanium Co., Ltd. ("Luxing Titanium") at a consideration of RMB20.9 million. Luxing Titanium is a mining company located in Shandong Province, the PRC, and is principally engaged in ilmenite ore mining and processing to produce iron concentrate and titanium concentrate.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Presentation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.1 Basis of Presentation (Continued)

2.1.1 Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 22.

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 January 2013, are consistently applied by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units ("CGUs") which had been included HKAS 36 by the issue of HKFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.1 Basis of Presentation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKFRS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Executive Management of the Company that make strategic decisions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB") which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within 'finance income' or 'finance cost'. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'other gains/(losses) – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.5 Property, plant and equipment

Property, plant and equipment, which consist of buildings and structures, mining infrastructures, motor vehicles, equipment and others, are stated at historical cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statements of comprehensive income during the financial period in which they are incurred.

Stripping costs incurred in the production phase of the surface mines are capitalised and presented as mining infrastructures if, and only if all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group;

- the Group can identify the component of the ore body for which access has been improved; and

- the costs relating to the stripping activity associated with that component can be measured reliably.

Other than mining infrastructures, depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

	Estimated useful lives
Buildings and structures	15 years
Motor vehicles, equipment and others	3-10 years

Mining infrastructures (including the main and auxiliary mine shafts and underground tunnels) are depreciated using the units of production method based on ore reserves as the depletion base.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the consolidated statements of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.6 Intangible assets

(a) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. Mining right includes the cost of acquiring mining licenses, costs transferred from exploration right and exploration and evaluation assets upon determination that an exploration property is capable of commercial production. The mining right is amortised using the units of production method based on ore reserves as the depletion base.

(b) Exploration rights

Exploration rights are stated at cost less impairment loss. Exploration right includes costs incurred in acquiring exploration right and exploration tenement, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

(c) Exploration and evaluation assets

Exploration and evaluation expenditures comprise costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility studies.

During the initial stage of a project, exploration and evaluation expenditures are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised as exploration and evaluation assets if the project proceeds. If a project does not prove viable, all irrecoverable expenditures associated with the project are expensed in the consolidated statements of comprehensive income.

Exploration and evaluation assets are stated at cost less accumulated impairment losses. As the assets are not available for use, they are not depreciated. All capitalised exploration and evaluation expenditures are monitored for the indicators of impairment listed below:

(i) the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

(iv) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation assets are unlikely to be recovered in full from successful development or by sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.6 Intangible assets (Continued)

***(c) Exploration and evaluation assets** (Continued)*

When one or more of above indicators are triggered, impairment assessment is performed for each area of interest (which is defined as each exploration license or tenement) in conjunction with the group of operating assets (representing a cash-generating unit ("CGU")) to which the exploration is attributed. Exploration areas at which reserves have been discovered but that require major capital expenditure before production can begin are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway or planned. If any impairment occurred, the impairment loss is charged to the consolidated statements of comprehensive income.

If the exploration and evaluation assets are sold or abandoned, the cost and the related accumulated impairment losses will be charged to the consolidated statements of comprehensive income in the period in which the sale or abandonment occurred.

Exploration and evaluation assets are transferred to mining right from the commencement of mining activities and are amortised based on unit of production basis.

2.7 Impairment of non-financial assets and associate

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("CGU"). Each mine represents a CGU. Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are presented as 'trade receivables', 'restricted bank deposits', 'other receivables' and 'cash and cash equivalents' in the consolidated balance sheet.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise, they are classified as non-current.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statements of comprehensive income within 'other gains/(losses) – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statements of comprehensive income as part of other income when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

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(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.8 Financial assets (Continued)

2.8.2 Recognition and measurement (Continued)

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statements of comprehensive income as 'other gains/(losses) – net'.

Dividends on available-for-sale equity instruments are recognised in the consolidated statements of comprehensive income as part of other income when the Group's right to receive payments is established.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.9 Impairment of financial assets (Continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statements of comprehensive income on equity instruments are not reversed through the consolidated statements of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statements of comprehensive income.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average costing method. The cost of finished goods comprises raw material, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost to completion and the applicable variable selling expenses.

2.11 Trade receivables and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Trade payables and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has a contractual or an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.15 Borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.17 Employee benefits

(a) Pension obligations

The PRC employees of the Group covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

(b) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.19 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees and other service providers as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.20 Provision for close down, restoration and environmental costs

One consequence of mining is damage of land at the mining sites. Depending on the circumstances, the Group may compensate the inhabitants for the losses or damage of land at mining site due to mining activities. The Group may be required to make payments for close down, restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phrase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and increase in the net present value of the provision is recognised as interest expense.

Notes to the Consolidated Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.20 Provision for close down, restoration and environmental costs (Continued)

Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying value of the provision and related assets, and the effect is then recognised in the consolidated statements of comprehensive income on a prospective basis over the remaining life of the operation. Provisions for close down and restoration costs do not included any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at each balance sheet date to reflect changes in conditions.

2.21 Leases

Leases where a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land and land use rights, are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue associated with the sale of iron concentrate and titanium concentrate is recognised when the goods have been delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the goods.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders, where appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

2. SUMMARY OF SIGNIFICANT ACCOUTING POLITICS (CONTINUED)

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow interest rate risk), credit risk, liquidity risk and concentration risk.

(a) Market risk

(i) Foreign exchange risk

Shandong Ishine, Luxing Titanium and Ishine International Resources Limited ("Ishine International"), which operate in the PRC and Australia, are three major subsidiaries of the Group. Almost all of the transactions of Shandong Ishine, Luxing Titanium and Ishine International are denominated and settled in their respective functional currencies, i.e. RMB and AUD respectively. Therefore the Group has no significant foreign exchange risk from the operations of these three subsidiaries that might impact its consolidated result of operations.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

(ii) Cash flow interest rate risk

The Group's exposure to cash flow interest rate risks arises from the Group's interest bearing bank deposits and bank borrowings whose interest rates are subjected to adjustments by the PRC government. All borrowings are at variable rates which expose the Group to cash flow interest rate risk. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Other than those mentioned above, the Group's income and operating cash flows are substantially independent of changes in the market interest rates.

Notes to the Consolidated Financial Statements

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow interest rate risk (Continued)

As at 31 December 2013 and 2012, if the interest rate on borrowings had been higher/lower by 100 basis points, the net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	For the year ended 31 December	
	2013	2012
Year ended:		
Net profit increase/(decrease)		
– 100 basis points higher	(3,440)	(1,098)
– 100 basis points lower	3,440	1,098

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted bank deposits, trade receivables, other receivables except for prepayment included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

Bank deposits and restricted bank deposits are mainly placed in state-owned banks in the PRC and overseas banks that have investment grade ratings. Notes receivables represent bank acceptance notes. The issuing banks of these bank acceptance notes are either state-owned banks with investment grade ratings or local banks with good reputation. Management believes these financial institutions are of high credit quality and there is no significant credit risk on such bank deposits and bank acceptance notes. Sales to the Group's top five largest customers accounted for 73% and 82%, respectively, of the total revenue for the years ended 31 December 2013 and 2012. All of these major customers are with good credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the financing cash flows and expected future operating cash flows.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year	1-2 years	2-5 years	Above 5 years
As at 31 December 2013				
Borrowings	221,410	–	–	–
Trade payables	73,749	–	–	–
Other payables	42,365	–	–	–
Total	337,524	–	–	–

	Less than 1 year	1-2 years	2-5 years	Above 5 years
As at 31 December 2012				
Borrowings	274,728	106,340	–	–
Trade payables	59,936	–	–	–
Other payables	28,883	–	–	–
Total	363,547	106,340	–	–

(d) Concentration risk

Revenue of the Group is principally derived from Shandong Ishine and Luxing Titanium which have the operating mines of the Group. Any disruption to the operation of the mine may have a material adverse impact on the result of operations and the financial position of the Group.

During 2013, more than 73% of the Group's revenue was derived from sales made to top five customers (2012: 82%). In the event that these major customers terminate their business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation

Financial instruments carried at fair value are measured by different levels defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's available-for-sale financial assets are measured at fair value belong to level 1 investment.

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank deposits, trade receivables, other receivables and financial liabilities including trade payables and other payables, borrowings, approximate their fair values due to their short maturities and floating interest rate.

3.3 Capital management

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheets) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheets plus net debt.

During the years ended 31 December 2013 and 2012, the Group's strategy was to maintain the gearing ratio below 40%. The gearing ratio at 31 December 2013 and 2012 were as follows:

	As at 31 December	
	2013	2012
Total debt – total borrowings *(Note 22)*	**210,000**	349,900
Less: cash and cash equivalents *(Note 16)*	**64,089**	82,920
Net debt	**145,911**	266,980
Total equity	**702,203**	592,576
Total capital	**848,114**	859,556
Gearing ratio	**17%**	31%

The decrease in gearing ratio during 2013 is mainly due to the repayment of borrowings.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment for receivables

Provision for impairment of receivables is determined based on the evaluation of the collectability of accounts receivable and notes receivable.

A considerable amount of judgement is required in assessing the ultimate realisation of account receivables, including the past collection history of each counterparty, the current creditworthiness, and the current market condition. The major customers of the Group are steel mills and iron ore processing and trading companies in the neighborhood area, which account for almost all of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and the prevailing market conditions, the Group did not expect any losses from non-performance by these counter parties.

(b) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

Estimates of reserves may change from period to period, because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

(i) asset carrying amounts may be affected due to changes in estimated future cash flows;

(ii) depreciation, depletion and amortisation charges may change where such charges are based on the units of production, or where the useful economic lives of assets change;

(iii) decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities;

(iv) the carrying amounts of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Provision for close down, restoration and environmental costs

Mining activities may result in land subsidence, which could lead to losses to the residents of the mining areas. Pursuant to the relevant PRC regulations, the Group is required to make compensation payments to the residents for their losses resulting from land subsidence, or to restore the mining areas back to certain acceptance conditions.

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or result of operations of the Group. The PRC government, however, has moved and may move further towards the adoption or more stringent environment standards. Environmental liabilities are subject to considerable uncertainty which affect the Group's ability to estimate the ultimate cost to remediation efforts. These uncertainties include:

(i) the exact nature and extent of the contamination at various sites including, but not limited to, iron ore, ilmenite ore mines and land development areas, whether operation, closed or sold;

(ii) the extent of required cleanup efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements;

(v) the identification of new remediation sites.

The provision for close down, restoration and environmental cleanup costs has been determined by management based on best estimate of future expenditures by discounting the expected expenditures to their net present value. In so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associate costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time and provisions are updated accordingly.

(d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives appear to be shorter than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes to the Consolidated Financial Statements

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Impairment of non-current assets

Non-current assets, including property, plant and equipment, intangible assets, are carried at cost or cost less accumulated depreciation, amortisation and impairment. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(f) Income taxes and deferred tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be reflected in the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

5. SEGMENT INFORMATION

(a) General information

The CODM has been identified as the Senior Executive Management who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments base on these reports.

Senior Executive Management assesses the performance of the business segments based on relative net profit/loss contributed by the respective segments.

The Group's reportable segments are defined by location, which is the basis by which the CODM makes decisions about resources to be allocated to the segments and assesses their performance. Financial information of the two locations has been separated to present discrete segment information to be reviewed by the CODM.

The CODM assesses performance of two reportable segments:

(i) Shandong Ishine and Luxing Titanium, which were both incorporated in the PRC and are engaged in iron ore mining and processing, ilmenite ore mining, sales of iron concentrate and titanium concentrate in the PRC.

(ii) Ishine International, which was incorporated in Australia and is engaged in the exploration of metal reserve in Australia.

Notes to the Consolidated Financial Statements

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5. SEGMENT INFORMATION (CONTINUED)

(b) Information about reportable segment profit, assets and liabilities

The measurement of profit or loss, assets and liabilities of the operating segments are the same as those described in the summary of significant accounting policies. The amounts of segment information of Shandong Ishine, Luxing Titanium and Ishine International are denominated in RMB and AUD respectively. The segment information of Ishine International is translated into RMB for the reports used by the CODM.

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2013 and 2012 is as follows:

	Shandong Ishine and Luxing Titanium	Ishine International	Total
For the year ended 31 December 2013			
Revenue	667,904	–	667,904
Tenement and exploration expenses	(281)	(539)	(820)
Gross profit/(loss)	149,149	(539)	148,610
Finance income	291	–	291
Finance costs	(29,321)	(12)	(29,333)
Impairment losses	–	(744)	(744)
Income tax expense	(23,627)	–	(23,627)
Net profit/(loss)	130,153	(7,519)	122,634
Other information			
Depreciation of property, plant and equipment	35,060	280	35,340
Expenditures for non-current assets	130,208	1	130,209

	Shandong Ishine	Ishine International	Total
For the year ended 31 December 2012			
Revenue	871,521	–	871,521
Tenement and exploration expenses	(1,020)	(1,671)	(2,691)
Gross profit/(loss)	154,477	(1,671)	152,806
Finance income	1,372	91	1,463
Finance costs	(36,275)	–	(36,275)
Impairment losses	–	(6,988)	(6,988)
Income tax expense	(24,113)	–	(24,113)
Net profit/(loss)	69,987	(14,388)	55,599
Other information			
Depreciation of property, plant and equipment	31,729	149	31,878
Expenditures for non-current assets	55,247	27	55,274

Notes to the Consolidated Financial Statements

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5. SEGMENT INFORMATION (CONTINUED)

(b) Information about reportable segment profit, assets and liabilities (Continued)

(i) Reconciliations of reportable segments revenue, profit or loss

	For the year ended 31 December 2013	2012
Total revenue for reportable segments	667,904	871,521
Elimination of inter-segment revenue	–	–
Group revenue	667,904	871,521

	For the year ended 31 December 2013	2012
Net profit for reportable segments	122,634	55,599
Other unallocated expenses	(13,527)	(13,202)
Net profit	109,107	42,397

The segment information provided to the CODM for the reportable segments as at 31 December 2012 and 2013 is as follows:

	Shandong Ishine and Luxing Titanium	Ishine International	Total
As at 31 December 2013			
Segment assets	1,138,662	8,756	1,147,418
Segment liabilities	454,170	342	454,494

	Shandong Ishine	Ishine International	Total
As at 31 December 2012			
Segment assets	1,015,609	17,676	1,033,285
Segment liabilities	531,090	267	531,357

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5. SEGMENT INFORMATION (CONTINUED)

(b) Information about reportable segment profit, assets and liabilities (Continued)

(ii) Reconciliations of reportable segments assets

	As at 31 December 2013	As at 31 December 2012
Total assets for reportable segments	1,147,418	1,033,285
Other unallocated assets	480,529	494,917
Elimination of inter-segment accounts	(466,102)	(466,563)
Group assets	1,161,845	1,061,639

(iii) Reconciliations of reportable segments liabilities

	As at 31 December 2013	As at 31 December 2012
Total liabilities for reportable segments	454,494	531,357
Other unallocated liabilities	12,024	10,587
Elimination of inter-segment accounts	(6,876)	(72,881)
Group liabilities	459,642	469,063

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6. BUSINESS COMBINATIONS

In January 2013, Shandong Ishine, a wholly-owned subsidiary of the Company, acquired 95% equity interest of Luxing Titanium from a third party. According to the share purchase agreement, the aggregate cash consideration of this acquisition is RMB20,900,000.

The fair values of assets and liabilities arising from this acquisition on the acquisition date are as follows:

	Fair value
Consideration:	
At 1 January 2013	
– Cash	20,900
Total Consideration	20,900
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	343
Property, plant and equipment *(Note 7)*	65,567
Intangible assets *(Note 8)*	119,000
Deferred income tax assets *(Note 11)*	3,496
Inventories	7,935
Trade and other receivables	91,252
Trade and other payables	(8,011)
Provision for rehabilitation *(Note 23)*	(13,488)
Borrowings	(150,000)
Deferred income tax liabilities *(Note 11)*	(25,537)
Taxes payable	(5,059)
Total identifiable net assets	85,498
Non-controlling interest	(4,275)
Negative goodwill *(Note 27)*	(60,323)
	20,900

The revenue included in the consolidated statements of comprehensive income since the acquisition date contributed by the acquisition above was RMB74,647,000. The acquisition above also contributed a net profit of RMB4,548,000 over the same period.

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For the year ended 31 December 2013
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7. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings and structures	Mining infrastructures	Motor vehicles, equipment and others	Construction in progress	Total
For the year ended 31 December 2012					
Opening net book value	75,944	44,907	68,345	3,327	192,523
Additions	9,389	10,061	18,379	15,038	52,867
Transferred from construction in progress	2,434	–	3,722	(6,156)	–
Depreciation charge	(10,365)	(8,651)	(12,897)	–	(31,913)
Effect of foreign exchange rate changes	–	–	13	–	13
Closing net book value	77,402	46,317	77,562	12,209	213,490
At 31 December 2012					
Cost	98,110	56,816	119,387	12,209	286,522
Accumulated depreciation	(20,708)	(10,499)	(41,825)	–	(73,032)
Net book value	77,402	46,317	77,562	12,209	213,490
For the year ended 31 December 2013					
Opening net book value	77,402	46,317	77,562	12,209	213,490
Acquisition of a subsidiary *(Note 6)*	9,359	11,885	42,654	1,669	65,567
Additions	530	33,297	20,388	74,625	128,840
Transferred from construction in progress	1,068	–	10,751	(11,819)	–
Written off or disposals – cost	–	–	(78)	–	(78)
Written off or disposals – accumulated depreciation	–	–	54	–	54
Depreciation charge	(9,629)	(3,706)	(22,022)	–	(35,357)
Effect of foreign exchange rate changes	–	–	(64)	–	(64)
Closing net book value	78,730	87,793	129,245	76,684	372,452
At 31 December 2013					
Cost	109,067	101,998	193,038	76,684	480,787
Accumulated depreciation	(30,337)	(14,205)	(63,793)	–	(108,335)
Net book value	78,730	87,793	129,245	76,684	372,452

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
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7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group (Continued)

Depreciation charge of the Group was included in the following categories in the consolidated statements of comprehensive income and the consolidated balance sheets:

	For the year ended 31 December	
	2013	2012
Cost of sales *(Note 25)*	**24,175**	23,399
Administrative expenses *(Note 25)*	**8,748**	8,485
Capitalised in inventories	**2,434**	29
	35,357	31,913

The Company

	Equipment and others
For the year ended 31 December 2012	
Opening net book value	–
Additions	52
Depreciation charge	(6)
Effect of foreign exchange rate changes	1
Closing net book value	47
At 31 December 2012	
Cost	53
Accumulated depreciation	(6)
Net book value	47
For the year ended 31 December 2013	
Opening net book value	**47**
Additions	**1**
Depreciation charge	**(17)**
Effect of foreign exchange rate changes	**(1)**
Closing net book value	**30**
At 31 December 2013	
Cost	**53**
Accumulated depreciation	**(23)**
Net book value	**30**

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For the year ended 31 December 2013
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8. INTANGIBLE ASSETS

	Exploration rights (a)	Exploration and evaluation assets (b)	Mining rights (c)	Total
For the year ended 31 December 2012				
Opening net book amount	12,609	12,313	4,297	29,219
Additions	–	2,460	–	2,460
Amortisation charge	–	–	(242)	(242)
Effect of foreign exchange rate changes	154	–	–	154
Impairment	(4,006)	–	–	(4,006)
Closing net book amount	8,757	14,773	4,055	27,585
At 31 December 2012				
Cost	8,757	14,773	4,327	27,857
Accumulated amortisation	–	–	(272)	(272)
Net book amount	8,757	14,773	4,055	27,585
For the year ended 31 December 2013				
Opening net book amount	**8,757**	**14,773**	**4,055**	**27,585**
Acquisition of a subsidiary *(Note 6)*	–	–	**119,000**	**119,000**
Additions	–	**1,369**	–	**1,369**
Amortisation charge	–	–	**(5,058)**	**(5,058)**
Effect of foreign exchange rate changes	**(678)**	–	–	**(678)**
Closing net book amount	**8,079**	**16,142**	**117,997**	**142,218**
At 31 December 2013				
Cost	**8,079**	**16,142**	**123,327**	**147,548**
Accumulated amortisation	–	–	**(5,330)**	**(5,330)**
Net book amount	**8,079**	**16,142**	**117,997**	**142,218**

Amortisation charge of the Group was included in 'cost of sales' in the consolidated statements of comprehensive income.

(Amounts expressed in thousands of RMB)

8. INTANGIBLE ASSETS (CONTINUED)

(a) Exploration rights consist of:

(i) an exploration right of an iron ore mine in Shandong Province, the PRC, acquired by the Group in 2008 at consideration of RMB4,750,000.

(ii) certain exploration tenements in Australia acquired by the Group in 2009 amounting to AUD1,226,100 (equivalent to RMB8,013,000), which was settled by:

- Cash of AUD50,000 (equivalent to RMB326,000);
- 2,000,000 shares of Ishine International, a subsidiary whose shares were listed on Australian Securities Exchange (ASX code: ISH) issued at price of AUD0.20 per share with a total value of AUD400,000 (equivalent to RMB2,614,000);
- 5,000,000 options to acquire the shares of Ishine International at AUD0.20 each on or before 31 December 2015 to the vendor (Note 33(a)). The total fair value of the options granted as at date of acquisition was AUD776,100 (equivalent to RMB5,073,000); and
- In 2012, the board of directors of Ishine International decided not to pursue further interest in one of the exploration tenements, and the capitalised acquisition cost of AUD613,053 (equivalent to RMB4,006,000) was recognised as an impairment loss.

(b) Exploration and evaluation assets represent the capitalised expenditures incurred for application of the mining rights in Shandong Province, the PRC.

(c) As at 31 December 2013 and 2012, all the Group's mining rights were pledged as collaterals for the Group's borrowings (Note 22).

9. INTEREST IN SUBSIDIARIES

The Company

	As at 31 December 2013	2012
Unlisted investment, at cost (a)	217,126	217,126
Amount due from subsidiaries (b)	242,401	242,702
Total interest in subsidiaries	459,527	459,828

(a) Unlisted investment in subsidiaries is stated at the aggregate net book value of the net assets of the subsidiaries acquired, net of the amount due from a subsidiary as mentioned below.

(b) Amount due from subsidiaries represents shareholder's loans to Alliance Worldwide Investment Limited ("Alliance Worldwide"), Fortune Shine Investment Limited ("Fortune Shine"), Shine Mining Investment Limited ("Shine Mining") and Ishine Mining International Limited ("Ishine Mining"), which are the intermediate holding companies. Such loans are unsecured, non interest bearing and not repayable until Alliance Worldwide, Fortune Shine, Shine Mining and Ishine Mining are financially capable to do so.

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9. INTEREST IN SUBSIDIARIES (CONTINUED)

The Company (Continued)

The Company has direct and indirect interests in the following subsidiaries:

Company name	*Note*	Place and date of incorporation	Principal activities	Type of legal entity	Issued/paid-up capital	Equity interest attributable to the Group	Principal countries of operation
Directly held:							
Alliance Worldwide		BVI/ 29 November 2010	Investment holding	Limited liability company	USD50,000	100%	Hong Kong
Indirectly held:							
Ishine Mining		Hong Kong/ 22 December 2010	Investment holding	Limited liability company	HKD10,000	100%	Hong Kong
Fortune Shine		Cayman Islands/ 21 September 2010	Investment holding	Limited liability company	USD50,000	100%	Hong Kong
Shine Mining		Hong Kong/ 1 November 2010	Investment holding	Limited liability company	HKD10,000	100%	Hong Kong
Shandong Ishine		The PRC/ 4 December 2001	Iron ore mining processing and sales of iron concentrates	Limited liability company	USD16,850,903	100%	The PRC
Ishine International	*(a)*	Australia/ 18 September 2009	Exploration of metal reserves	Limited liability company	AUD7,621,235	69.51%	Australia
Luxing Titanium	*(b)*	The PRC/ 2 July 2008	Ilmenite ore mining processing and sales of iron and titanium concentrate	Corporation Limited company	RMB22,000,000	95%	The PRC

(a) On 28 December 2012, 3,551,291 shares were allotted and issued by Ishine International to Shandong Ishine at consideration of AUD781,284 (equivalent to RMB5,023,000). The equity interest was increased from 68.27% to 69.51%.

(b) In January 2013, Shandong Ishine acquired 95% of the equity interest of Luxing Titanium, at a consideration of RMB20,900,000.

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10. AVAILABLE FOR SALE FINANCIAL ASSETS

	As at 31 December 2013	2012
Beginning balance	2,441	4,256
Effect of foreign exchange rate changes	(345)	103
Gain from revaluation	90	1,064
Impairment loss (a)	(744)	(2,982)
Ending balance	1,442	2,441

(a) Available for sale financial assets ("AFS") represents 7.8% of the ordinary share capital of Athena Resources Limited ("Athena") held by Ishine International. The fair value of such financial assets has been determined by reference to published quotation in an active market. During 2013, AUD124,500 (equivalent to RMB744,000) (2012: AUD 456,500, equivalent to RMB2,982,000) was recognised as an impairment loss on the basis that it was considered as a permanent diminution in value.

11. DEFERRED INCOME TAX ASSETS AND LIABILITIES

The analysis of deferred income tax assets and deferred income tax liabilities are as follows:

	As at 31 December 2013	2012
Deferred tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	1,075	335
– Deferred income tax assets to be recovered within 12 months	4,152	1,638
	5,227	1,973

	As at 31 December 2013	2012
Deferred tax liabilities:		
– Deferred income tax liabilities to be recovered after more than 12 months	32,614	3,635
– Deferred income tax liabilities to be recovered within 12 months	–	–
	32,614	3,635

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11. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

The gross movement on the deferred income tax account is as follows:

	For the year ended 31 December 2013	2012
Beginning balance of the year	(1,662)	(399)
Acquisition of a subsidiary *(Note 6)*	(22,041)	–
Recognised in the consolidated statements of comprehensive income *(Note 29)*	(3,684)	(1,263)
Ending balance of the year	(27,387)	(1,662)

The movement in deferred income tax assets and liabilities during 2013, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Provision for close down, restoration and environmental costs	Others	Total
At 31 December 2012	1,638	335	1,973
Acquisition of a subsidiary *(Note 6)*	3,371	125	3,496
Recognised in the consolidated statements of comprehensive income	(857)	615	(242)
At 31 December 2013	**4,152**	**1,075**	**5,227**

(b) Deferred income tax liabilities

	Depreciation of mining infrastructure	Others	Total
At 31 December 2012	3,635	–	3,635
Acquisition of a subsidiary *(Note 6)*	787	24,750	25,537
Recognised in the consolidated statements of comprehensive income	4,226	(784)	3,442
At 31 December 2013	**8,648**	**23,966**	**32,614**

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11. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(i) Pursuant to the PRC corporate income tax, 10% withholding income tax will be levied on foreign investors for dividend distributions from foreign invested enterprises' profit earned after 1 January 2008. For qualified investors incorporated in Hong Kong, a treaty rate of 5% will be applied. As at 31 December 2013, Shandong Ishine, the subsidiary of the Group incorporated in the PRC, with total retained earnings amounting to RMB273,555,000 will be subject to this withholding tax. The Group did not recognise the related deferred tax liabilities of approximately RMB13,678,000 as at 31 December 2013, as the Directors of the Company had foreseen that retained earnings up to 31 December 2013 of Shandong Ishine will not be distributed in the future.

(ii) As at 31 December 2013 and 2012, the Group did not recognise deferred income tax assets of RMB13,566,000 and RMB11,310,000 in respect of accumulated losses arising from Ishine International amounting to RMB45,219,000 and RMB37,700,000 respectively, which can be carried forward indefinitely to offset against future taxable income.

12. INVENTORIES

	As at 31 December	
	2013	2012
Raw materials		
– Iron ore and ilmenite ore	1,406	238
– Others	1,431	8,612
Finished goods	26,161	3,589
Spare parts and others	6,606	3,833
	35,604	16,272

For the years ended 31 December 2013 and 2012, the cost of inventories recognised as cost of sales amounting to approximately RMB390,695,000 and RMB612,361,000, respectively.

13. TRADE RECEIVABLES

	As at 31 December	
	2013	2012
Trade receivables	190,447	271,716

The Group's sales are mainly made on credit terms of 90 days. As at 31 December 2013 and 2012, the carrying amounts of trade receivables approximated their fair values.

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13. TRADE RECEIVABLES (CONTINUED)

Aging analysis of trade receivables as at 31 December 2013 and 2012 is as follows:

	As at 31 December	
	2013	2012
Less than 3 months	164,614	162,309
3 months to 6 months	24,249	68,648
6 months to 1 year	1,554	40,759
1 year and above	30	–
	190,447	271,716

All the Group's trade receivables were denominated in RMB as at 31 December 2013 and 2012. There was no provision for trade receivables as at 31 December 2013 and 2012. The maximum exposure to credit risk at the balance sheet date was the carrying value of the trade receivables.

As at 31 December 2013 and 2012, trade receivables with carrying amount of nil and RMB181,423,000, respectively, were pledged as collaterals for the Group's borrowings (Note 22).

As at 31 December 2013 and 2012, trade receivables of approximately RMB25,833,000 and RMB109,407,000 respectively, were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default.

14. NOTES RECEIVALBES

	As at 31 December	
	2013	2012
Notes receivables		
– bank acceptance notes	206,188	261,739

The aging of notes receivables is within 6 months. As at 31 December 2013 and 2012, the carrying amounts of notes receivables approximated their fair values.

As at 31 December 2013 and 2012, bank acceptance notes with carrying amount of RMB nil and RMB20,000,000 were pledged as collateral against the Group's bank borrowings (Note 22).

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15. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			
	The Group		The Company	
	2013	2012	2013	2012
Advance to suppliers (a)	43,982	175,405	–	–
Undeducted VAT	20,278	–	–	–
Land restoration deposit	4,425	4,425	–	–
Advance to employees	919	188	–	–
Others	6,098	2,687	3,521	1,555
	75,702	182,705	3,521	1,555

(a) As of 31 December 2013 and 2012, advance to suppliers mainly comprised prepayments made to suppliers for purchasing of coarse iron powder.

16. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

The Group

	As at 31 December	
	2013	2012
Cash and cash equivalents		
– Cash on hand	334	352
– Cash at banks	63,755	82,568
	64,089	82,920
Restricted bank deposits		
– Fixed date deposits	50,000	–
– Deposits for bank acceptance notes	18,476	–
– Deposits for property lease guarantee	–	798
	132,565	83,718

Cash and cash equivalents and restricted bank deposits were denominated in the following currencies:

	As at 31 December	
Original Currency	2013	2012
RMB	110,189	39,110
HKD	18,885	33,181
AUD	2,912	10,524
USD	579	903
	132,565	83,718

RMB is currently not a freely convertible currency in international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

Notes to the Consolidated Financial Statements

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16. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS (CONTINUED)

The Company

	As at 31 December 2013	2012
Cash and cash equivalents		
– Cash on hand	6	6
– Cash at banks	18,356	32,940
	18,362	32,946

Cash and cash equivalents were denominated in the following currencies:

Original Currency	As at 31 December 2013	2012
HKD	18,321	32,904
USD	41	42
	18,362	32,946

17. SHARE CAPITAL AND SHARE PREMIUM

The Group and the Company

Issued shares:	Number of shares issued and fully paid	Share capital	Share premium	Total
At 31 December 2011	1,111,112	9	274,760	274,769
Shares issued pursuant to the capitalisation issue (a)	590,000,472	4,774	(4,774)	–
Shares issued for initial public offering (b)	129,760,000	1,051	109,340	110,391
At 31 December 2012	720,871,584	5,834	379,326	385,160
Dividends declared (c)	–	–	(2,297)	(2,297)
At 31 Decembers 2013	720,871,584	5,834	377,029	382,863

(a) Pursuant to a shareholder's resolution dated 9 April 2012, and conditional on the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the proposed share offering described in the Company's prospectus dated 17 April 2012, the Company capitalised an amount of HKD5,900,005 (equivalent to RMB4,774,000) standing to the credit of its share premium account and to appropriate such amount as capital to pay up 590,000,472 shares in full at par.

(b) On 27 April 2012, the Company issued 129,760,000 ordinary shares at HKD1.23 per share as the result of initial public offering.

(c) On 26 March 2013, a dividend of HKD2,880,000 (equivalent to RMB2,297,000) was recommended by the directors of the Company, and lately approved by the shareholders at the annual general meeting ("AGM") held on 14 May 2013. It was paid out of the share premium account of the Company.

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18. RESERVES

The Group

	Merger reserve (a)	Capital reserve	Statutory reserve funds (b)	Safety fund (c)	Future development fund (d)	Share-based payments reserve	Available-for-sale financial assets reserve	Currency translation differences	Total
At 31 December 2011	(162,269)	50,941	38,171	50,643	11,882	3,701	(729)	704	(6,956)
Appropriations	–	–	5,479	12,115	6,714	–	–	–	24,308
Change in value on available-for-sale financial assets	–	–	–	–	–	–	729	–	729
Share-based payments	–	–	–	–	–	168	–	–	168
Currency translation differences	–	–	–	–	–	–	–	413	413
At 31 December 2012	**(162,269)**	**50,941**	**43,650**	**62,758**	**18,596**	**3,869**	**–**	**1,117**	**18,662**
Appropriations	–	–	4,833	24,474	25,683	–	–	–	54,990
Change in value on available-for-sale financial assets	–	–	–	–	–	–	63	–	63
Share-based payments	–	–	–	–	–	507	–	–	507
Currency translation differences	–	–	–	–	–	–	–	(1,583)	(1,583)
At 31 December 2013	(162,269)	50,941	48,483	87,232	44,279	4,376	63	(466)	72,639

The Company

	Contributed surplus 2013	2012
At 31 December 2012	119,549	118,704
Contributed surplus (e)	–	845
At 31 December 2013	119,549	119,549

(a) Merger reserve

Merger reserve represents the difference between the share capital and share premium issued by the Company for acquisition of the subsidiaries pursuant to a reorganisation for IPO purpose and the aggregate capital of the subsidiaries being acquired at the time of the reorganisation.

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18. RESERVES (CONTINUED)

(b) Statutory reserve funds

In accordance with the PRC Company Law, Shandong Ishine and Luxing Titanium's articles of association, Shandong Ishine and Luxing Titanium are required to allocate 10% of their profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to the PRC companies ("PRC GAAP") and regulations applicable to Shandong Ishine and Luxing Titanium, to the statutory reserve fund until such reserve reaches 50% of the registered capital of Shandong Ishine and Luxing Titanium. The appropriation to the reserve must be made before any distribution of dividends to owners. The statutory reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as Shandong Ishine and Luxing Titanium's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of Shandong Ishine and Luxing Titanium.

For the years ended 31 December 2013 and 2012, Shandong Ishine appropriated RMB4,833,000 and RMB5,479,000 respectively to the statutory reserve fund, representing 10% of Shandong Ishine's profit after tax for the years then ended, as determined in accordance with the PRC GAAP.

(c) Safety fund

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, Shandong Ishine and Luxing Titanium are required to set aside an amount to a safety fund at RMB8 per ton of iron ore and ilmenite ore mined. The fund can be used for improvements of safety at the mines, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditures, Shandong Ishine and Luxing Titanium are eligible to transfer the equivalent amount of the expenditures from safety fund to retained earnings.

(d) Future development fund

Pursuant to the relevant PRC regulations, Shandong Ishine and Luxing Titanium are required to set aside an amount to a future development fund at RMB15 per ton of raw iron ore and ilmenite ore mined. The fund can be used for future development of the iron ore and ilmenite mining operations, and is not available for distribution to shareholders. Upon incurring qualifying development expenditures, Shandong Ishine and Luxing Titanium are eligible to transfer the equivalent amount of the expenditures from future development fund to retained earnings.

(e) Contributed surplus

Contributed surplus of the Company represents the difference between the excess of the nominal value of the Company's shares issued and the aggregate net asset value at the subsidiaries acquired pursuant to the reorganisation.

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19. TRADE PAYABLES

	As at 31 December	
	2013	2012
Trade payables	73,749	59,936

Aging analysis of trade payables at the respective balance sheet dates is as follows:

	As at 31 December	
	2013	2012
Less than 6 months	43,487	57,103
6 months to 1 year	21,574	2,473
1 year and above	8,688	360
	73,749	59,936

As at 31 December 2013 and 2012, the carrying amounts of trade payables approximated their fair values. Trade payables were denominated in RMB.

20. NOTES PAYABLES

	As at 31 December	
	2013	2012
Notes payables		
– Bank acceptance notes	14,786	1,180

The aging of notes payables is within 6 months.

As at 31 December 2013, the carrying amounts of notes payables approximated their fair values.

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21. ACCRUALS AND OTHER PAYABLES

The Group

	As at 31 December	
	2013	2012
Deposits and receipts in advance	52,334	13,920
Other tax payable	18,679	12,614
Guarantee deposits	9,096	5,438
Employee benefit payables	6,376	4,280
Accrued land compensation cost	3,365	2,986
Others	4,772	3,565
	94,622	42,803

The Company

	As at 31 December	
	2013	2012
Amount due to Shandong Ishine	6,875	3,218
Employee benefit payables	170	176
Others	2,423	6,488
	9,468	9,882

(Amounts expressed in thousands of RMB)

22. BORROWINGS

	As at 31 December	
	2013	2012
Non-current		
Bank borrowings	–	100,000
Current		
Bank borrowings	110,000	189,900
Short-term portion of non-current borrowings	100,000	60,000
	210,000	249,900
Total borrowings	210,000	349,900
Representing:		
Secured -		
Pledged (a)	130,000	329,900
Guaranteed (b)	80,000	20,000
	210,000	349,900

(a) As at 31 December 2013, bank borrowings of RMB130,000,000 was pledged by mining rights of Shandong Ishine and Luxing Titanium with carrying amount of RMB117,997,000. As at 31 December 2012, bank borrowings of RMB160,000,000 was pledged by a mining right of Shandong Ishine with carrying amount of RMB4,055,000.

As at 31 December 2013 and 2012, bank borrowings of RMB nil and RMB150,000,000 were pledged by the Group's trade receivables (Note 13) with carrying amount of RMB nil and RMB181,423,000, respectively.

As at 31 December 2013 and 2012, bank borrowings of RMB nil and RMB19,900,000 were pledged by the Group's notes receivables (Note 14) with carrying amount of nil and RMB20,000,000, respectively.

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22. BORROWINGS (CONTINUED)

(b) As at 31 December 2013 and 2012, the following borrowings of the Group were guaranteed by certain third parties and the Controlling Shareholder:

	As at 31 December 2013	2012
Joint guarantee given by third parties and the Controlling Shareholder *(Note 36)*		
– Linyi Runxing Investment Co., Ltd and Mr. Li Yunde	20,000	–
Guarantee given by Controlling Shareholder *(Note 36)*		
– Mr. Li Yunde	–	20,000
Guarantee given by other third parties		
– Shandong Zhonglian Tegang Co., Ltd	30,000	–
– Yishui Hesheng Minerals Co., Ltd	30,000	–
	80,000	20,000

All of the Group's borrowings were denominated in RMB.

The weighted average effective interest rates per annum as at 31 December 2013 and 2012 were as follows:

	As at 31 December 2013	2012
RMB	6.37%	6.24%

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates were as follows:

	As at 31 December 2013	2012
Within 6 months	30,000	129,900
6 months to 1 year	180,000	120,000
1 year and above	–	100,000
	210,000	349,900

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22. BORROWINGS (CONTINUED)

The maturity of non-current borrowings as at 31 December 2013 and 2012 was as follows:

	As at 31 December	
	2013	2012
1-2 years	–	100,000
2-5 years	–	–
	–	100,000

As at 31 December 2013 and 2012, the carrying amounts of current borrowings and non-current borrowings approximated their fair values.

23. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

	As at 31 December	
	2013	2012
Beginning balance of the year	6,551	9,978
Acquisition of a subsidiary *(Note 6)*	13,488	–
Interest charge on unwinding of discounts *(Note 28)*	1,208	729
Payments	(4,635)	(4,156)
Ending balance of the year	16,612	6,551

A provision is recognised for the present value of costs to be incurred for the restoration of the damaged land in the mine site due to mining activities and the removal of the processing plants. These costs have been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean-up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are remeasured accordingly.

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24. REVENUE

	For the year ended 31 December 2013	2012
Production		
– Sales of iron concentrate	525,136	549,032
– Sales of titanium concentrate	6,754	–
Trading		
– Sales of coarse iron powder	136,014	310,936
– Others	–	11,553
Total	667,904	871,521

25. EXPENSE BY NATURE

	For the year ended 31 December 2013	2012
Changes in inventories of finished goods, iron ore and ilmenite ore	(21,861)	22,021
Payment to mining contractors	78,706	56,855
Cost of raw materials for production	168,019	207,320
Cost of raw materials for trading	129,277	300,778
Spare parts and others	36,554	25,387
Employee benefit expenses	34,847	24,868
Depreciation *(Note 7)*	32,923	31,884
Amortisation *(Note 8)*	5,058	242
Utilities and electricity	41,190	29,780
Transportation expenses	20,499	13,101
Professional fees	4,801	8,435
Auditor's remuneration	3,100	3,332
Resources tax	18,511	16,323
Impairment losses	744	6,988
Other expenses	32,358	31,418
Total cost of sales, distribution and administrative expenses	584,726	778,732

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26. EMPLOYEE BENEFITS (INCLUDING DIRECTORS' EMOLUMENTS)

	For the year ended 31 December	
	2013	2012
Wages, salaries and allowances	28,472	18,586
Pensions and others welfare expenses	6,375	6,282
	34,847	24,868

27. OTHER GAINS – NET

	For the year ended 31 December	
	2013	2012
Negative goodwill from acquisition of a subsidiary *(Note 6)*	60,323	–
Government grants	19,384	8,010
Gains on disposal of PPE	6	–
Others	(219)	(562)
	79,494	7,448

28. FINANCE EXPENSES – NET

	For the year ended 31 December	
	2013	2012
Finance income		
– Interest income of bank deposits (wholly paid within five years)	291	1,463
Exchange (loss)/gains, net	(116)	831
Finance costs		
– Interest expense on bank borrowings	(24,628)	(29,545)
– Interest charge on unwinding of discounts *(Note 23)*	(1,208)	(729)
– Interest expense on discount of bank acceptance notes	(3,210)	(5,296)
– Others	(1,067)	(451)
	(30,113)	(36,021)
Finance costs, net	(29,938)	(33,727)

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29. INCOME TAX EXPENSE

	For the year ended 31 December	
	2013	2012
Current tax	**19,943**	22,850
Deferred tax *(Note 11)*	**3,684**	1,263
	23,627	24,113

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 revised) of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

The subsidiary incorporated in the British Virgin Islands under the International Business Companies Acts of the British Virgin Islands is exempted from payment of the British Virgin Islands income tax.

Hong Kong profits tax has not been provided for the subsidiaries in Hong Kong as there is no estimated assessable profit arising in or derived from Hong Kong during the years ended 31 December 2013 and 2012.

Australia corporation income tax is 30%. Australia corporation income tax has not been provided for the subsidiary in Australia as there is no estimated assessable profit arising in or derived from Australia during the years ended 31 December 2013 and 2012.

Corporate income tax ("CIT") in the PRC is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government on 16 March 2007 (the "New CIT Law"), the tax rate for the Company's PRC subsidiaries, Shandong Ishine and Luxing Titanium, both were 25% from 1 January 2008 onwards.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	For the year ended 31 December	
	2013	2012
Profit before tax	**132,734**	66,510
Tax calculated at statutory tax rate	**35,180**	19,116
Income not subject to tax	**(13,822)**	(1,906)
Expenses not deductible for taxation purposes	**1,393**	4,947
Tax losses for which no deferred income tax asset was recognised	**876**	1,956
Income tax expense	**23,627**	24,113

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30. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit attributable to owners of the Company for each of the years ended 31 December 2013 and 2012.

	For the year ended 31 December 2013	2012
Profit attributable to owners of the Company	111,214	46,904
Adjusted weighted average number of shares in issue	720,871,584	679,277,283
Basic and diluted earnings per share (Expressed in RMB per share)	0.15	0.07

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for the years ended 31 December 2013 and 2012.

31. DIVIDENDS

On 26 March 2013, a dividend of HKD2,880,000 (equivalent to RMB2,297,000) was recommended by the directors of the Company, and lately approved by the shareholders at the annual general meeting held on 14 May 2013. It was paid out of the share premium account of the Company.

The directors of the Company resolved not to declare any dividend for the year ended 31 December 2013.

32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2013 and 2012 is set out below:

	For the year ended 31 December 2013	2012
Basic salaries and allowances	2,504	1,880
Other benefits including pension	36	42
Total	2,540	1,922

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32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

Directors' emoluments are set out below:

	Salaries and allowances	Pension-defined contribution plans	Bonus	Total
For the year ended 31 December 2013				
Executive Directors				
Li Yunde (李運德)	941	12	–	953
Geng Guohua (耿國華)	604	12	–	616
Lang Weiguo (郎偉國)	479	12	–	491
Independent Non-executive Directors				
Lin Chu Chang (林鉅昌)	240	–	–	240
Zhang Jingsheng (張涇生)	120	–	–	120
Li Xiaoyang (李曉陽)	120	–	–	120
For the year ended 31 December 2012				
Executive Directors				
Li Yunde (李運德)	742	17	–	759
Geng Guohua (耿國華)	454	17	–	471
Lang Weiguo (郎偉國)	330	8	–	338
Independent Non-executive Directors				
Lin Chu Chang (林鉅昌)	165	–	–	165
Zhang Jingsheng (張涇生)	107	–	–	107
Li Xiaoyang (李曉陽)	82	–	–	82

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32. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

For years ended 31 December 2013 and 2012, the five individuals whose emoluments were the highest in the Group include three (2012: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2012: four) individuals were as follows:

	For the year ended 31 December	
	2013	2012
Basic salaries and allowances	1,746	3,285
Discretionary bonuses	96	97
Other benefits including pension	839	159
Total	2,681	3,541

The emoluments of the five highest paid individuals fell within the following bands:

	Number of individuals For the year ended 31 December	
	2013	2012
Emolument bands (in HKD)		
HKD500,000 and below	–	2
HKD500,001 – HKD1,000,000	3	2
HKD1,000,001 – HKD1,500,000	2	1

During the years ended 31 December 2013 and 2012, no directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

33. SHARE BASED PAYMENTS

(a) Shares options issued to an employee

In December 2013, pursuant to an employment agreement with an employee of Ishine International, 300,000 shares were approved to be issued if certain service criteria were met. The service criteria are as follows:

(i) On full service of first year – 300,000 shares;

(ii) On full service of second year – 300,000 shares;

(iii) On full service of third year – 300,000 shares;

The fair value of the share-based payment is based on Ishine International's share price at grant date, (1 December 2013). There are no vesting conditions apart from the employee fulfilling the service period, and no dividend yield has been included. As at the balance sheet date, 300,000 shares were approved to be issued but not issued yet.

(b) Share options issued for acquisition of exploration rights and to service providers

Ishine International has signed share-based payment contracts in 2009 and 2010 respectively for the acquisition of the exploration rights and to a consultancy service provider.

The fair value of the share options granted by Ishine International was estimated as at the date of grant using Black Sholes calculation model, taking into account the terms and conditions upon which the options were granted. Key inputs to the model comprise:

	Note (i)	Note (ii)
No. of share options issued	5,000,000	1,075,000
Exercise price	AUD0.2000	AUD0.2000
Risk free interest rate	5.34%	3.75%
Expiry date	31 December 2015	29 March 2013
Volatility	90%	50%
Price of the share option	AUD0.1552	AUD0.0968

(i) Share options issued for acquisition of exploration rights

As disclosed in Note 8(a)(ii), on 3 December 2009, Ishine International granted 5,000,000 share options to a third party vendor in exchange for the acquisition of certain exploration rights in Australia. The options are exercisable at AUD0.20 each on or before 31 December 2015. The total fair value of the options granted as at the date of acquisition amounted to AUD776,100 (equivalent to RMB5,073,000) and was recorded as part of consideration for acquisition of the exploration rights.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

33. SHARE BASED PAYMENTS (CONTINUED)

(b) Share options issued for acquisition of exploration rights and to service providers (Continued)

(ii) Share options issued to service providers

On 29 March 2010, Ishine International issued 1,175,000 share options as consideration for provision of certain consultancy services by a third party consultant. The share options are exercisable at AUD0.20 each. The share options will not be vested until the market price of Ishine International on the ASX reaches AUD0.30 per share or above for 35 consecutive days. On 2 November 2010, 100,000 options with exercise price of AUD0.20 were exercised. On 29 March 2013, 1,075,000 share options with exercise price of AUD0.20 were expired.

As at 31 December 2013, the total fair value of above shares and share options granted was AUD907,083 (equivalent to RMB5,802,000) which has been fully recorded by the Group as at 31 December 2013 as follows:

(1) As disclosed in Note 8, share options amounted to AUD776,100 (equivalent to RMB5,073,000) are recorded as exploration rights; and

(2) Recognised share – based paymen expenses of RMB729,000 (AUD131,083) were recorded in administrative expenses in the consolidated statements of comprehensive income during the beneficial period.

Share options outstanding at the end of the respective years have the following expiry date and exercise prices:

		Number of Options ('000)	
	Exercise price	As at 31 December	
Expiry date	**in AUD per share**	**2013**	**2012**
29 March 2013	0.2000	–	1,075
31 December 2015	0.2000	5,000	5,000
		5,000	6,075

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before income tax to net cash flow generated from operations:

	For the year ended 31 December	
	2013	2012
Profit before income tax	132,734	66,510
Adjustments for:		
Impairment loss *(Note 25)*	744	6,988
Depreciation *(Note 25)*	32,923	31,913
Gains on disposal of PPE *(Note 27)*	(6)	–
Amortisation *(Note 25)*	5,058	242
Interest income *(Note 28)*	(291)	(1,463)
Interest expense *(Note 28)*	24,628	29,545
Negative goodwill from acquisition of a subsidiary *(Note 6)*	(60,323)	–
Interest charge on unwinding of discounts *(Note 28)*	1,208	729
Change in share-based payments reserve	197	240
Initial public offering expenses	–	8,435
Changes in working capital:		
Inventories	(482)	16,857
Prepayments and other receivables	137,396	(80,522)
Trade receivables	143,037	(71,918)
Notes receivables	(35,324)	45,552
Trade payables	2,558	(5,381)
Notes payables	13,606	1,180
Accruals and other payables	52,498	6,690
Provision for close down, restoration and environmental costs *(Note 23)*	(4,635)	(4,156)
Restricted bank deposits	798	(798)
Cash generated from operations	446,855	50,644

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

35. COMMITMENTS

(a) Exploration commitment

Ishine International has obligations under the exploration license to spend a minimum amount of exploration expenditures on the project. The obligations may vary from time to time subject to the approval from the relevant government authorities. Due to the nature of Ishine International's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditures may be reduced by seeking exemption from individual commitments, by relinquishing of tenure or any new joint venture agreements. Expenditure may be increased when new tenements are granted or joint venture agreements amended.

The existing tenement commitments in accordance with the contracts are as follows:

	As at 31 December	
	2013	2012
No more than 1 year	4,883	6,440
1 to 3 years	8,239	5,360
3 to 5 years	1,281	4,286
	14,403	16,086

(b) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December	
	2013	2012
PPE	8,556	–

(c) Operating lease commitments

The Group leases various offices and a production line under non-cancellable operating lease agreements. The lease terms are between 3 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

	As at 31 December	
	2013	2012
No more than 1 year	2,571	1,649
1 to 3 years	3,311	553
3 to 5 years	1,200	–
	7,082	2,202

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013
(Amounts expressed in thousands of RMB)

36. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

(a) During the years ended 31 December 2013 and 2012, the Group's directors were of the view that the following companies and individuals were related parties of the Group:

Names of related parties	Nature of relationship
Mr. Li Yunde	The Controlling Shareholder

(b) Significant transactions with related parties

During 2013, the Group has the following significant transactions with related parties:

(i) Movement of amount due from/(to) the Controlling Shareholder

	As at 31 December	
	2013	2012
At the beginning of the year	–	(6,115)
Net repayment in cash	–	6,115
At the end of the year	–	–

(ii) As at 31 December 2013, bank borrowings with an amount of RMB20,000,00 were jointly guaranteed by the Controlling Shareholder and third parties (Note 22). As at 31 December 2012, bank borrowings with an amount of RMB20,000,000 were guaranteed by the Controlling Shareholder (Note 22).

(c) Key management compensation

Key management includes directors (executive and non-executive), members of the Executive Committee, and the Company Secretary. The compensation paid or payable to key management for employee services is shown below:

	For the year ended 31 December	
	2013	2012
Wages, salaries and allowances	2,551	2,466
Contributions to pension plans	43	53
	2,594	2,519

Financial Highlights

A summary of the operational results, assets and liabilities, cash flows and other financial ratios information is as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December			
	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	667,904	871,521	1,010,252	485,452
Cost of sales	(524,245)	(718,715)	(734,056)	(281,063)
Gross profit	143,659	152,806	276,196	204,389
Selling and distribution expenses	(12,521)	(10,973)	(9,649)	(4,602)
Administrative expenses	(47,960)	(49,044)	(41,462)	(31,732)
Finance costs, net	(29,938)	(33,727)	(48,463)	(22,577)
Share of loss of an associate	–	–	(1,606)	(851)
Profit before tax	132,734	66,510	178,032	142,125
Income tax expense	(23,627)	(24,113)	(48,042)	(39,563)
Profit and total comprehensive income attributable to:				
Owners of the Company	111,214	94,950	262,566	109,468
Non-controlling interests	(2,107)	(8,501)	(5,059)	(3,676)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	For the year ended 31 December			
	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	640,506	816,150	866,005	804,805
Non-current assets	521,339	245,489	229,349	157,441
Current liabilities	410,416	358,877	484,294	425,011
Non-current liabilities	49,226	110,186	173,167	214,990
Equity attributable to:				
Equity holders of the Company	695,912	588,008	429,403	310,935
Non-controlling interests	6,291	4,568	8,490	11,310

Financial Highlights

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			
	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash used in operating activities	407,421	(17,210)	(150,820)	(152,910)
Net cash generated from/(used in) investing activities	(135,162)	(37,000)	165,998	22,167
Net cash generated from/(used in) financing activities	(289,900)	(65,765)	148,184	50,251

SELECTED FINANCIAL RATIOS

	For the year ended 31 December			
	2013	2012	2011	2010
Gross profit margin	21.51%	17.5%	27.3%	42.1%
Net profit margin	16.34%	4.9%	12.9%	21.1%
Gearing ratio	17.20%	31.06%	41.84%	53.32%